As permitted by New York Stock Exchange rules, this Form 10-K is being distributed to shareholders in lieu of a separate annual report. The Form 10-K with exhibits has been filed with the Securities and Exchange Commission. One copy of any exhibits, which have been omitted from this Form 10-K will be furnished without fee upon written request of a security holder of Winston Hotels, Inc. directed to the Secretary of the Corporation at the address below. RECEIVED SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

02029664

For the fiscal year ended December 31, 2001

Commission file number 0-23732

#### WINSTON HOTELS, INC.

(Exact name of registrant as specified in its charter)

North Carolina (State of incorporation)

56-1624289 (I.R.S. Employer Identification Number)

2626 Glenwood Avenue, Suite 200 Raleigh, North Carolina (Address of principal executive offices)

(Zip Code)

THE A CHARLES CAN CONTRACT OF A SHIP OF THE

(919) 510-6010 - Alika Harris Alika Harris Alika Harris Ha (Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

**PROCESSED** 

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Common Stock, \$0.01 par value per share Preferred Stock, \$0.01 par value per share New York Stock Exchange (Title of Class)

**Document** 

New York Stock Exchange (Name of Exchange upon Which Registered)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was a required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ⊠ No□

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

The aggregate market value of the registrant's Common Stock, \$0.01 par value per share, at March 1, 2002, held by those persons deemed by the registrant to be non-affiliates was approximately \$143,538,109.

As of March 1, 2002, there were 16,957,533 shares of the registrant's Common Stock. \$0.01 par value per share, outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for Annual Meeting of Shareholders to be held on May 7, 2002

Where Incorporated Part III

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#### WINSTON HOTELS, INC.

## Form 10-K Annual Report

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Winston Hotels, Inc. ("WHI") operates so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes. During 1994, WHI completed an initial public offering of its common stock ("Common Stock"), utilizing the majority of the proceeds to acquire one hotel and a general partnership interest (as the sole general partner) in WINN Limited Partnership (the "Partnership"). The Partnership used a substantial portion of the proceeds to acquire nine additional hotel properties. These ten hotels were acquired from affiliates of WHI. WHI and the Partnership (collectively the "Company") began operations as a REIT on June 2, 1994. As of December 31, 2001, WHI's ownership in the Partnership was 92.87%.

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During 1995 and 1996, WHI completed follow-on Common Stock offerings, as well as a Preferred Stock offering in September 1997, and invested the net proceeds from these offerings in the Partnership. The Partnership utilized the proceeds to acquire 28 and additional hotel properties. During 1998, the Company added 13 additional properties to its portfolio, five of which were internally developed. The Company sold two hotels in 2000 and one hotel in 2001. As of December 31, 2001, the Company wholly owned 48 hotel properties (the "Current Hotels") in 12 states having an aggregate of 6,574 rooms.

The Company also owns a 49% ownership interest in three joint ventures, each of which owns an operating hotel, (collectively the "Joint Venture Hotels"). The Joint Venture Hotels consist of a Hilton Garden Inn located in Windsor, CT, a Hampton Inn located in Ponte Vedra, FL and a Hilton Garden Inn located in Evanston, IL, having a total of 453 rooms. Additionally, the Company has provided mezzanine financing to three unrelated parties, two of which own Hilton Garden Inn hotels having a total of 275 rooms, and one of which owns an independent resort hotel with 679 rooms. The Company has no ownership interest in any property for which it has provided mezzanine financing.

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As of December 31, 2001, the Company leased 46 of the 48 Current Hotels to CapStar Winston Company, L.L.C. ("CapStar Winston"), a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"), one of the Current Hotels to Bristol Winston Company, a wholly owned subsidiary of Six Continents Hotels, Inc. ("Six Continents"), and one of the Current Hotels to Secaucus Holding Corporation, a wholly owned subsidiary of Prime Hospitality Corp. ("Prime"). CapStar Winston also currently leases two of the Joint Venture Hotels, located in Ponte Vedra, FL and Evanston, IL. Six Continents also currently leases the Joint Venture Hotel located in Windson, CT. All 48 of the Current Hotels are leased pursuant to separate percentage operating lease agreements that provide for rent payments based, in part, on revenues from the Current Hotels (the "Percentage Leases"). Under the terms of the Percentage Leases, the lessees are obligated to pay the Company the greater of base rent ("Base Rent") or percentage rent ("Percentage Rent"). The Percentage Leases are designed to allow the Company to participate in the growth in revenues at the Current Hotels by requiring that a portion of each Current Hotel's room revenues in excess of specified amounts will be paid to the Company as Percentage Rent.

#### Narrative Description of Business

Growth Strategy and some parameter of the construction of the state of

EThe Company's growth strategy is to enhance shareholder value by increasing cash available for distribution per share of Common Stock through: (i) participating in any increased room revenue from the Current Hotels through Percentage Leases; (ii) generating development, purchasing and asset management fee income from joint ventures; (iii) acquiring additional hotels, or ownership interests in hotels, that meet the Company's investment criteria, either directly or through joint ventures; (iv) selectively developing new hotels and making additions to the Current Hotels as market conditions warrant, and (v) mezzanine financing activities whereby the Company initiates hotel loans to third party hotel owners.

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#### Internal Growth Strategy

The Company participates in any increased or decreased room revenue from the Current Hotels through Percentage Leases. The Company believes that internal growth, through increases in Percentage Rent, has resulted, and in the future may result, from: (i) continued sales and marketing programs by the lessees and operators; (ii) completion of necessary refurbishment projects at the Current Hotels; (iii) maintenance of hotel franchises with demonstrated market acceptance and national reservation systems; and (iv) increases in occupancy rates, average daily room rates ("ADR") and revenue per available room ("RevPAR").

The Percentage Leases provide that a percentage of room revenues in specified ranges is paid as Percentage Rent. For most leases, the percentage of room revenues paid as Percentage Rent increases as a higher specified level of room revenues is achieved. Pursuant to each Percentage Lease, Base Rent and the ranges of room revenues specified for purposes of calculating Percentage Rent are

adjusted on a quarterly or annual basis for inflation beginning on the first day after the first full fiscal year of the Percentage Lease, based on changes in the United States Consumer Price Index ("CPI").

#### Joint Ventures Strategy

The Company is actively seeking one or more institutional investors as joint venture partners to acquire: (i) hotels for repositioning, (ii) hotels for rehabilitation and (iii) hotels that could benefit from new management and additional capital. The Company expects to make a minority interest investment in any joint venture formed and expects to receive fees for overseeing the joint venture's properties and operations. In addition to generating development, purchasing and asset management fee income and thus enhancing the Company's revenues and cash flow, the Company expects to receive other benefits from joint venture agreements, such as the company is revenues and cash flow, the Company expects to receive other benefits from joint venture agreements, such as the company is revenues and cash flow. expanded affiliations with leading upscale brands and growth in the Company's portfolio with a smaller equity investment by us.

In addition to the three joint ventures described above, the Company owns a 50% interest in a joint venture with an affiliate of Concord Hospitality Enterprises, Inc. This joint venture currently has no operations, but it has two hotels under contract for purchase at prices aggregating approximately \$7.0 million. The Company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that these two hotels will require an additional of the company estimates that the company estimates the company estimates that the company estimates approximately \$8.0 million in renovations. Under certain circumstances, Concord will have the right to purchase the Company's interest in the two hotels, and the first such as the first such as a such as the such as the first such as the such as the first such as

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The Company currently has no commitments from any institutional investor to make any investment in a joint venture with us and there can be no assurance that the Company will be successful in attracting joint venture investors or in locating additional hotels for acquisition by any joint venture: The first the second of the property of the second o

The Company intends to acquire additional hotels, or ownership interests in hotels, with strong national franchise affiliations in the "mid-scale without food and beverage" and "upscale" market segments, or hotel properties with the potential to obtain such franchise affiliations. In particular, the Company will consider acquiring limited-service hotels, such as Hampton Inn and Fairfield Inn by Marriott; full-service hotels such as Hilton Garden Inn, Courtyard by Marriott and Holiday Inn; and extended-stay hotels such as Homewood Suites by Hilton, Hampton Inn and Suites, Residence Inn, Spring Hill Suites by Marriott and Staybridge by Holiday Inn (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward Looking Statements"). an na saturi di salah di dalam dalam di saturah sang di sang tang di dalam di dalam di saturah saturah di dalam

The Company intends to consider investments in hotel properties that meet one or more of the following criteria: (i) properties in locations with relatively high demand for rooms, a relatively low supply of hotel properties and relatively high barriers to entry into the hotel business, such as a scarcity of suitable sites or zoning restrictions; (ii) successful hotels available at favorable prices; (iii) newly developed hotels; (iv) hotels that could benefit from repositioning; (v) hotels that could benefit from substantial rehabilitation; and (vi) hotels that could benefit from new management and additional hotel capital. The Company believes that its relationships with its lessees and franchisors will provide additional potential investment opportunities. are the grade of the grade

#### Development Strategy

The Company intends to pursue selective hotel development as suitable opportunities arise. The Company may finance 100% of such development or seek partners who would co-invest in development or rehabilitation joint ventures. The Company intends to consider development of hotels with strong national franchise affiliations in markets where the Company believes that carefully timed and managed development will yield returns to the Company that exceed returns from any available hotels in those markets that meet the Company's acquisition criteria. The Company earns certain fees from its joint venture development activity and also is exploring other opportunities to use management's expertise to earn additional fees through third party development. Since its initial public offering in 1994, the Company has developed five hotels that it now owns and has developed three hotels through joint ventures in which it owns a 49% interest. rang in the first of the contract of the state of the same of the

#### Mezzanine Financing

In 2000 and 2001, the Company made three mezzanine loans totaling approximately \$3.5 million to third party hotel owners. We continue to seek additional prudent mezzanine financing opportunities where the Company can leverage its hotel underwriting and development expertise into attractive investments. The content of the content of

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Prior to January 1,2001, under the REIT qualification requirements of the Internal Revenue Code, REITs:generally were required to lease their hotels to third party operators. Under the REIT Modernization Act of 1999 (the "RMA"), which became effective January 1, 2001, a REIT is permitted to lease hotels to wholly owned taxable REIT subsidiaries of the REIT ("TRS Lessees"). Under the RMA, the TRS Lessees may not operate the leased hotels and must enter into management agreements with eligible independent contractors who will manage the hotels.

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The Company is currently negotiating with CapStar Winston to acquire all 48 operating leases between the companies. If successful, the Company expects to lease these 48 hotels to new taxable REIT subsidiaries as permitted under the RMA. In such event, the Company's taxable REIT subsidiaries would in turn enter into hotel management agreements with third party management companies, which qualify as eligible independent contractors, to manage the hotels. However, there can be no assurance that the example will be able to successfully negotiate and complete the acquisition of these leases and entertinto a taxable REIT subsidiary lessee structure. The Company expects that the costs incurred in acquiring these lease agreements will be recorded as an expense in a the period incurred.

#### Operations and Property Management was a cooperation of the control of the contro

As of December 31, 2001, CapStar Winston leased 46 of the Current Hotels, 38 of which they also operated. Interstate Management and Investment Corporation ("IMIC") managed seven of the Current Hotels and Hilton Hotels Corporation ("Hilton") managed one of the Current Hotels (collectively the "Property Managers") pursuant to management agreements with CapStar Winston with respect to each of such hotels. Six Continents and Prime each leased and operated one of the Current Hotels. CapStar Winston leased and operated two of the Joint Venture Hotels and Six Continents leased and operated the other Joint Venture Hotels. The lessees and the Property Managers seek to increase revenues at the Current Hotels by using established systems to manage the Current Hotels for marketing, rate achievement, expense management, physical facility maintenance; human resources; accounting and internal additing. They are trained in all aspects of hotel operations, including negotiation of prices with corporate and other clients and responsiveness to marketing requirements in their particular markets, with particular emphasis placed on customer service. The lessees and the other property Managers employ a mix of marketing techniques designed for each specific Current Hotel, which include individual toll-free lines, cross-marketing of the Current Hotels' billboards and direct marketing, as well as taking advantage of national advertising by the franchisors of the Current Hotels.

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The lessees lease the Current Hotels pursuant to the Percentage Leases. Under the Percentage Leases, the lessees, or the Property Managers, generally are required to perform all operational and management functions necessary to operate the Current Hotels. The lessees are entitled to all profits and cash flow from the Current Hotels after payment of rent under the Percentage Leases and other operating expenses, including, in the case of the eight Current Hotels managed by the Property Managers, the management fee payable to the Property Managers. The lessees, their affiliates and the Property Managers may manage other hotel properties in addition to a hotels owned by the Company, however, the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of a hotel owned by the Company and leased by the lessees and their affiliates may not build or develop a hotel or motel within five miles of the lessees and their affiliates are all the lessees are all the lessees an

CapStar Winston is a wholly owned subsidiary of MeriStar, a New York Stock Exchange listed company As of December 31, 2001, MeriStar, the nation's largest independent hotel management company, leased or managed 275 hospitality properties with more than 57,000 rooms in 41 states, the District of Columbia and Canada.

IMIC, a hotel development and management company, operates seven of the Current Hotels under separate management agreements with CapStar Winston. Each year, CapStar Winston pays IMIC a base management fee for each Current Hotel managed by IMIC based on a percentage of the budgeted gross operating profits if they exceed budgeted amounts. IMIC has agreed that each year it will spend a specified percentage of the gross revenues of each Current Hotel managed by IMIC on repairs and maintenance of the hotel. CapStar Winston and the Company have retained the right to control the expenditure of funds budgeted for capital and non-routine items, including; at their discretion, approving plans and selecting and overseeing contractors and other vendors. IMIC currently operates 33 hotels in six states; including 27 limited-service hotels and 6 full-service, convention or resort hotels.

Hilton manages one of the Current Hotels under a management agreement with CapStar Winston Each year, CapStar Winston pays Hilton a management fee based on a percentage of the gross operating profit for the hotel managed by Hilton with certain incentive of amounts: Hilton is recognized internationally as a preeminent hospitality company. Hilton develops, owns, manages or franchises of 2,000 hotels, resorts and vacation ownership properties. Its portfolio includes many of the world's best known and most highly regarded hotel brands; including Hilton, Doubletree, Embassy Suites, Hampton Inn, Homewood Suites by Hilton, Red Lion Hotels. Inns and Conrad International.

Six Continents is one of the leading hotel operating companies in the world. As of December 31, 2001, Six Continents operated of more than 3,200 hotels in close to 100 countries, primarily full-service hotels in the upscale and mid-scale segments of the hotel industry with branded hotels including Crowne Plaza, Holiday Inn, Holiday Inn Select and Holiday Inn Express hotels:

Prime, a New York Stock Exchange listed company, is one of the nation's premier lodging companies. Prime operates two proprietary brands, AmeriSuites (all-suites) and Wellesley Inns (limited-service). It also owns and/or manages hotels operated under franchise agreements with national hotel chains. As of December 31, 2001, Prime Hospitality Corporation owned, operated, managed or franchised over 230 hotels in 32 states.

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All of the Company's Current Hotels operate under franchise licenses and the Company anticipates that most of the additional hotel properties in which it invests will be operated under franchise licenses. Franchisors provide a variety of benefits for franchisees which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems.

The hotel franchise licenses generally specify certain management, operational, record keeping, accounting, reporting and marketing standards and procedures with which the lessees must comply. The franchise licenses obligate the lessees to comply with the franchisors! standards and requirements with respect to training of operational personnel, safety/maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided, display of signs, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas record to the display of signs, and the type, quality and age of the numbers and equipment included in guest rooms, lobbies and other common areas record to the display of signs, and the type, quality and age of the numbers and equipment included in guest rooms, lobbies and other common areas record to the display of signs, and the type, quality and age of the numbers and the signs which is a sign of the signs which is a sign of the sign of

Of the Current Hotels, franchise licenses, one expires in 2006, three expire in 2007, five expire in 2008, three expire in 2009; two expire in 2010, three expire in 2011, two expire in 2012, two expire in 2014, two expire in 2016, 17 expire in 2017 and eight expire in 2018. The franchise agreements provide for termination at the franchisor's option upon the occurrence of certain events, including the lessees failure to pay royalties and fees or perform its other covenants under the franchise agreement, bankruptcy, abandonment of the franchise roomnission of a felony, assignment of the franchise without the consent of the franchisor, or failure to comply with applicable law in the operation of the relevant Current Hotels. The franchise agreements will not renew automatically upon expiration. The lessees are responsible for making all payments under the franchise agreements to the franchisors. Under the franchise servers pay a franchise fee of an aggregate of generally between 4% and 5% of room revenues, plus additional fees of that amount to between 3% and 4% of room revenues from the Current Hotels.

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each how sede a significant but the lot meaning offer and located with contract we have but writing its a horizon end and a significant location. The Gurrent Hotels compete with other hotel properties in their geographic markets. Some of the Company's competitors to may have greater marketing and financial resources than the Company, the lessees, and the Property Managers. Several of the Current Hotels are located in areas in which they may compete with other Current Hotels for business. The Company competes for acquisition opportunities with entities that may have greater financial resources than the Company. These entities may generally be able to accept more risk than the Company can prudently manage, including risks with respect to the credit worthiness of a hotel-operator. And the Employees:

| Company can prudently manage including risks with respect to the credit worthiness of a hotel-operator. And the Employees:

2). The Company had 17 employees as of March 1, 2002; it is no recommend of greaters and the terral policy as the collection of a 10 it is

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Under various federal, state and local laws and regulations; an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. Furthermore, a person that arranges for the disposal or transports for disposal or treatment of a hazardous substance at another property may be liable for the costs of removal or remediation of hazardous substances released into the environment at that property. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remedy such substances, may adversely affect the owner's ability to use or sell such real estate or to borrow using such real estate as collateral costs. Certain environmental laws and common law principles could be used to impose liability for the release of and exposure to hazardous substances, including asbestos-containing materials ("ACMs") released into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances, including ACMs. In connection with the ownership and operation of the Current Hotels, the Company, the lessees or the Property Managers, as the case may be, may be potentially liable for such costs.

Phase I environmental site assessments ("ESAs") were obtained on all of the Current Hotels. The Phase I ESAs were intended to identify potential sources of contamination for which the Current Hotels may be responsible and to identify readily apparent environmental regulatory compliance concerns. The Phase I ESAs included historical reviews of the Current Hotels, reviews of certain public records, preliminary investigations of the sites and surrounding properties, screening for the presence of asbestos, PCBs (polychlorinated biphenyls) and underground storage tanks, and the preparation and issuance of a written report. The Phase I ESAs did not include invasive procedures, such as soil sampling or ground water analysis. The Phase I ESA reports have not revealed any environmental condition, liability or compliance concern that the Company believes would have a material adverse effect on the Company's business, assets or results of operations, nor is the Company aware of any such condition, liability or compliance concern. Nevertheless, it is possible that these reports do not reveal all environmental conditions, liabilities or compliance concerns or that there are material environmental conditions, liabilities or compliance concerns that arose at a Current Hotel after the related Phase I ESA report was completed of which the Company is unaware. Moreover, no assurances can be given that (i) future laws, ordinances or regulations will not impose any material environmental liability for existing conditions at the Current Hotels, or (ii) the current environmental condition of the Current Hotels will not be affected by the condition of the properties in the vicinity of the Current Hotels (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company.

In addition to the ESAs, the Company also obtained asbestos surveys for the Holiday Inn Select-Garland (Dallas), Texas and the Comfort Inn-Greenville, South Carolina. In each of the asbestos surveys, the consultants discovered the presence of ACMs. The Company is monitoring the presence of the ACMs with the assistance of its consultants.

The Company believes that the Current Hotels are in compliance in all material respects with all federal, state and local laws, ordinances and regulations regarding hazardous or toxic substances and other environmental matters. The Company has not been 188 notified by any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental substances in connection with any of its properties. General William Carlotte Commission of the Commi

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#### Tax Status

The Company elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended, effective for its short taxable year ended December 31, 1994. The Company believes that it qualifies for taxation as a REIT, and with certain exceptions, the Company will not be subject to tax at the corporate level on its taxable income that is distributed to the shareholders of the Company. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income. For taxable years beginning before January 1, 2001, the annual taxable income. distribution requirement was 95%. Failure to qualify as a REIT will render the Company subject to federal income tax (including any applicable minimum tax) on its taxable income at regular corporate rates and distributions to the shareholders in any such year will not be deductible by the Company. Although the Company does not intend to request a ruling from the Internal Revenue Service (the "Service") as to its REIT status, the Company has obtained the opinion of its legal counsel that the Company qualifies as a REIT. which opinion is based on certain assumptions and representations and is not binding on the Service or any court. Even if the results in the service or any court. Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and properties. A STATE OF BUT A THE PARTY OF THE STATE OF T

#### Seasonality

The Company's operations historically have been seasonal in nature, reflecting higher RevPAR during the second and third quarters. This seasonality and the structure of the Percentage Leases, which provide for a higher percentage of room revenues above the minimum. equal quarterly levels to be paid as Percentage Rent, can be expected to cause fluctuations in the Company's receipt of quarterly lease in a revenue under the Percentage Leases. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101") which provides guidance on revenue recognition. The Company adopted SAB 101 effective January 1, 2000. SAB 101, which requires that a lessor not recognize contingent rental income until annual specified hurdles have been achieved by the lessee, effectively defers recognition by the Company of a significant portion of percentage lease revenue from the first and second quarters, to the third and fourth quarters of the calendar year. SAB 101 has no impact on the Company's Funds From Operations ("FFO"), or its interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends (see Note 2 to the Company's consolidated financial statements).

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The following table lists the executive officers of the Company:

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		Chairman of the Board of Directors
	Robert W. Winston, III 40	Chief Executive Officer
	James D. Rosenberg	President, Chief Operating Officer and Secretary
		Executive Vice President, Chief Financial Officer and the state of the
	Kenneth R. Crockett	Executive Vice President of Development

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Charles M. Winston. Charles Winston has served as Chairman of the Board of Directors since March 15, 1994. Mr. Winston is a native of North Carolina and a graduate of the University of North Carolina at Chapel Hill with an A.B. degree. Mr. Winston has more than 37 years of experience in developing and operating full service restaurants and hotels. Mr. Winston is Röbert Winston's father and brother of James Winston, a director. t may act in tradition to the control of the contro

Robert W. Winston, III. Robert Winston has served as Chief Executive Officer and Director of the Company since March 15. 1994. Mr. Winston served as the Company's President from March 15, 1994 through January 14, 1999 and as Secretary for the periods from March 1994 through May 1995 and from October 1997 until May 5, 1998. Mr. Winston is a native of North Carolina. and a graduate of the University of North Carolina at Chapel Hill with a B.A. degree in economics. Mr. Winston is Charles Winston's son and James Winston's nephew.

James D. Rosenberg. Mr. Rosenberg assumed the title of President on January 14, 1999. Mr. Rosenberg has also served as Chief Operating Officer since January 5, 1998, Secretary since May 5, 1998, and served as Chief Financial Officer from January 5, 1998 through May 18, 1999. Mr. Rosenberg is a CPA and a graduate of Presbyterian College and received an MBA from the University of South Carolina. Prior to joining the Company, Mr. Rosenberg held the position of Senior Vice President with Holiday Inn Worldwide since 1994 where he was responsible for managing 85 hotels in seven countries. Prior to joining the Holiday Inn organization, Mr. Rosenberg was a partner in Sage Hospitality Resources and served as Executive Vice President and Chief Financial Officer of the Denver-based hospitality firm. Mr. Rosenberg started his career with Price Waterhouse, L.L.P. addy saive gramman. Her than the contradition by approache to like seven specifically source of the contradiction

Joseph V. Green. Mr. Green assumed the title of Executive Vice President, Chief Financial Officer on May 18, 1999. Mr. Green has also served as Executive Vice President - Acquisitions and Finance from January 1, 1998 through May 18, 1999, after having advised Winston Höspitality, Inc. on matters regarding hotel acquisitions and finance since 1993, including the initial public offering of WHI. Mr. Green is a graduate of East Carolina University, was awarded his J.D. degree from Wake Forest University School of Law and received a Master of Laws in Taxation from Georgetown University.

Kenneth R. Crockett. Mr. Crockett was appointed Senior Vice President of Development of the Company in September 1995 and Executive Vice President of Development in January 1998. Mr. Crockett is a graduate of the University of North Carolina at Chapel Hill with a B.S. degree in Business Administration. Prior to joining the Company, Mr. Crockett was an Associate Partner for project development in commercial real estate at Capital Associates, a real estate development firm located in the Raleigh, North Carolina area#AP (MOC) green until extract (MAR hearpole compacit affil and tinger concerns on the concerns and concerns the Conce

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PROPERTIES

ITEM 2.

The following table sets forth certain unaudited information with respect to the Current Hotels:

			2001					2000		
	Number	Room			Lease	Number	Room			Lease
	jo	Revenues	s		Revenues	of	Revenues		-	Revenues
	Rooms	(\$000)	ADR	Occupancy %	(\$000)	Rooms	(\$000)	ADR	Occupancy %	(\$000)
Hampton Inns					1	,				
Boone, NC	95	\$ 2,046	↔	39 70.8%	852	95	\$ 2,074	\$ 82.45	72.33%	891
Brunswick, GA	127	2,394			096	128	2,112	59.87	75.28%	829
Cary, NC	130	1,933			721	130	1,920	64.65	62.43%	732
Charlotte, NC	125	1,913		88   50.6%	732	125	2,590	81.46	69.49%	1,190
Chester, VA	99	1,244		33 73.4%	507	99	1,286	69.78	76.32%	544
Duncanville, TX *	1		1	1	•	;	1,030	44.25	71.90%	350
Durham, NC	137	2,528	28 66.43	43 76.1%	1,039	137	2,410	65.75	73.11%	992
Gwinnett, GA (Hampton Inn & Suites)	136	2,637	37 83.08		1,277	136	2,821	79.61	71.18%	1,428
Hilton Head, SC	124	1,997	76.97	97 56.9%	989	124	2,349	80.60	63.69%	939
Jacksonville, NC	120	1,838	38 61.81	81 67.9%	683	120	1,949	60.16	73.78%	611
Las Vegas, NV	128	1,978	78 61.25		925	128	2,232	59.94	79.50%	1,057
Perimeter, GA	131	2,355			1,110	131	2,452	84.75	60.33%	1,202
Raleigh, NC	141	2,455	55 76.07	07 62.7%	1,050	141	2,960	74.08	77.42%	1,396
Southern Pines, NC	126	1,640	40 65.29	29 54.6%	558	126	1,740	65.98	57.18%	620
Southlake, GA	124	2,305		73.00 69.2%	929	124	2,319	66.34	76.42%	961
W. Springfield, MA	126	3,132	32 91.50	50 75.0%	1,512	126	3,011	85.41	77.07%	1,460
White Plains, NY	156	5,277	77 . 117.07		2,681	156	5,257	111.72	82.42%	2,728
Wilmington, NC	118	1,762	68.49	49 60.3%	909	118	2,022	69.44	67.41%	791
Comfort Inns		,								
Augusta, GA	123	1,329			380	123	1,294	28.67	49.01%	378
Charleston, SC	128	2,321			1,016	128	2,390	75.65	67.44%	1,086
Chester, VA	123	1,826			784	122	2,008	64.02	70.25%	872
Clearwater/St. Petersburg, FL	120	1,512			448	120	1,548	58.84	%60.09	489
Durham, NC	138	2,403			1,054	138	2,607	68.45	75.40%	1,209
Fayetteville, NC	176	2,191			907	176	2,132	53.92	61.38%	917
Greenville, SC	190	1,493	93   56.98	98 37.8%	368	190	1,428	53.33	38.50%	357
London, KY (Comfort Suites) *	1				1	1,	89	20.60	36.32%	26
Orlando, FL (Comfort Suites)	215	2,977			1,032	214	3,732	61.44	77.56%	1,583
Raleigh, NC **	1	3	375 47.96		127	149	1,492	46.77	58.49%	507
Wilmington, NC	146	1,834	34 57.27	27 60.2%	209	146	1,993	57.53	64.83%	732
Homewood Suites										
Alpharetta, GA	112	2,534			1,352	112	2,613	89.93	70.88%	1,284
Cary, NC	120	3,195	95 94.41	41 77.9%	1,926	120	3,086	96.68	78.75%	1,861
Clear Lake, TX	92	2,565	55 94.52	52 80.8%	1,134	92	2,460	92.54	78.94%	1,087
Durham, NC	96	2,164		51 69.8%	1,056	96	2,178	78.92	78.53%	1,089
Lake Mary, FL	112	2,855	55   108.00		1,691	112	3,175	105.86	73.17%	1,624
Phoenix, AZ	126	2,154			1,340	126	2,364	81.72	62.73%	1,404
Raleigh, NC	137	3,120	20 91.24		1,676	137	3,322	89.43	74.08%	1,666
	į į	10. 10.								

			2001	0				2000		
	Number	Room			Lease	Number	Room			Lease
	Jo	Revenues			Revenues	of	Revenues			Revenues
	Rooms	(\$000)	ADR	Occupancy %	(\$000)	Rooms	(\$000)	ADR	Occupancy %	(\$000)
Holiday Inns										
Abingdon, VA (Holiday Inn Express)	.81	1,399	67.37	70.2%	650	81	1,374	65.02	71.27%	645
Clearwater, FL (Holiday Inn Express)	127	2,274	74.46	66.1%	944	127	2,452	72.59	72.67%	1,090
Dallas, TX (Holiday Inn Select)	243	3,085	71.66	48.3%	1,299	244	4,079	72.00	63.44%	1,760
Secaucus, NJ	160	5,464	121.70	76.9%	2,749	160	5,907	126.31	29.86%	3,181
Tinton Falls, NJ	171	4,936	108.48	72.9%	1,766	171	4,803	98.81	21.66%	1,727
Courtyard by Marriott										
Ann Arbor, MI	160	4,171	96.49	74.0%	1,929	160	4,468	95.78	20.66%	2,162
Houston, TX	198	3,719	88.74	58.2%	1,655	198	3,619	83.46	59.83%	1,642
Wilmington, NC	128	2,306	78.84	62.6%	882	128	2,415	77.23	67.12%	926
Winston-Salem, NC	122	2,238	81.44	61.7%	1,083	122	2,466	84.34	65.47%	1,253
Hilton Garden Inns			•							
Albany, NY	155	4,132	96.27	75.9%	1,250	155	3,830	88.85	75.98%	1,949
Alpharetta, GA	164	3,181	98.84	53.8%	1,348	164	3,707	96.19	64.21%	2,333
Raleigh/Durham, NC	155	4,101	111.52	65.0%	1,889	155	4,320	110.18	69.12%	2,476
	- (	•		,		,	i d	0	č	•
Quality Suites - Charleston, SC	168	3,411	83.56	%9.99	1,358	168	3,738	86.09	/0.62%	1,616
Residence Inn – Phoenix, AZ	168	3,004	87.49	26.0%	1,562	168	3,310	81.35	66.17%	1,721
Fairfield Inn - Ann Arbor, MI	110	1,840	72.01	63.6%	999	110	2,068	72.02	71.31%	839
TOTAL	6,574	\$ 125,543	\$ 81.32	64.04%	\$ 54,755	6,723	\$ 134,977	\$ 78.24	69.11%	\$ 62,430

\* Hotel sold during 2000.

<sup>\*\*</sup> Hotel sold during 2001.

#### The Percentage Leases

ESPAGIET NAS INCENCES

The Partnership leases the Current Hotels for remaining terms of 6 to 12 years pursuant to Percentage Leases, which provide for rent equal to the greater of Base Rent or Percentage Rent. The Percentage Leases for the Current Hotels contain the provisions described below. The Company intends that future leases with respect to its hotel property investments will contain substantially similar and the provisions, although the Company may, in its discretion, alter any of these provisions with respect to any particular future lease, or the depending on the purchase price paid, economic conditions and other factors deemed relevant at the time.

#### Percentage Lease Terms

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Each Percentage Lease for the Current Hotels has a non-cancelable remaining term of 6 to 12 years, subject to earlier termination upon the occurrence of certain contingencies described in the Percentage Lease.

#### Amounts Payable under the Percentage Leases

During the term of each Percentage Lease, the lessees are or will be obligated to pay (i) the greater of Base Rent or Percentage Rent and (ii) certain other additional charges. Base Rent accrues and is required to be paid monthly. Percentage Rent consists of minimum percentage rent and excess percentage rent, if any. Minimum percentage rent is calculated based primarily on the amount of room revenue up to a predetermined threshold per the lease. The percentage, which differs by hotel, is multiplied by this amount to calculate minimum percentage rent. These percentages range from 23% to 54.44%. Excess percentage rent is calculated based primarily on the amount of any room revenue in excess of the predetermined threshold mentioned above. The percentage, which differs by hotel, is multiplied by this amount to calculate excess percentage rent. These percentages range from 50% to 80%. For most leases, the percentage used to calculate excess percentage rent exceeds the percentage used to calculate the minimum percentage rent. Percentage Rent is due either monthly or quarterly.

Beginning in the fiscal year following the year in which most Percentage Leases commence, and for each fiscal year thereafter, (i) the annual Base Rent and (ii) the Percentage Rent formulas will be adjusted on a quarterly or annual basis for inflation, based on changes in the CPI. The adjustment in any quarter may not exceed 2%, which may be less than the change in CPI for the quarter.

Other than real estate and personal property taxes, casualty insurance, capital improvements and maintenance of underground utilities and structural elements, which are obligations of the Company, the Percentage Leases require the lessees to pay rent, insurance, all costs and expenses and all utility and other charges incurred in the operation of the Current Hotels. The Percentage Leases also provide for rent reductions and abatements in the event of damage to, destruction of or a partial taking of any Current Hotel.

#### Maintenance and Modifications

Under the Percentage Leases, the Company is required to maintain the underground utilities and the structural elements of the improvements, including exterior walls (excluding plate glass) and the roof of such Current Hotel. In addition, the Percentage Leases obligate the Company to fund periodic capital improvements (in addition to maintenance of underground utilities and structural elements) to the buildings and grounds comprising their respective Current Hotels, and the periodic repair, replacement and refurbishment of furniture, fixtures and equipment in their respective Current Hotels, up to an amount equal to 5% of room revenues (7% of room revenues and food and beverage revenue for one of its full-service hotels). These obligations will be carried forward to the extent that the lessees have not expended such amounts, and any unexpended amounts will remain the property of the Company upon termination of the Percentage Leases. Except for capital improvements and maintenance of structural elements and underground utilities, the lessees are required, at their expense, to maintain the Current Hotels in good order and repair, except for ordinary wear and tear, and to make non-structural, foreseen and unforeseen, and ordinary and extraordinary repairs which may be necessary and appropriate to keep the Current Hotels in good order and repair.

The lessees are not obligated to bear the cost of capital improvements to the Current Hotels. With the consent of the Company, however, the lessees, at their expense, may make non-capital and capital additions, modifications or improvements to the Current Hotels, provided that such action does not significantly alter the character or purposes of the Current Hotels or significantly detract from the value or operating efficiencies of the Current Hotels. All such alterations, replacements and improvements shall be subject to all the terms and provisions of the Percentage Leases and will become the property of the Company upon termination of the Percentage Leases. The Company owns or will own substantially all personal property not affixed to, or deemed a part of, the real estate or improvements thereon comprising the Current Hotels, except to the extent that ownership of such personal property would cause the rents under the Percentage Leases not to qualify as "rents from real property" for REIT income test purposes.

#### ITEM 3. LEGAL PROCEEDINGS

The Company currently is not involved in any pending legal proceedings, other than ordinary routine litigation incidental to the debusiness, nor are any such proceedings known to be contemplated by governmental authorities. The lessees have advised the Company that they currently are not involved in any material pending litigation, other than routine litigation arising in the ordinary course of business, substantially all of which is expected to be covered by liability insurance.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2001.

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#### PART II

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#### MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED ITEM 5. STOCKHOLDER MATTERS

#### Market Price of and Dividends on the Registrant's Common Equity

WHI's Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol "WXH." As of March 1, 2002, WHI had approximately 835 holders of record of its Common Stock. The following table sets forth, for the indicated periods, the high and low closing prices for the Common Stock and the cash distributions declared per share:

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	* × 2		Pric	e Range		Cash Distributions Declared
			<u>High</u>		Low	<u>Per Share</u>
<u>2001</u>			Services			1999 and the state of the
First Quarter	· : ÷	CAS \$	8.85	\$	7.13	The energy $_{ m cons}$ , then $_{ m cons}$ , $_{ m cons}$
Second Quarter		63.710	10.68		7.65	0.28
Third Quarter			10.25	***	6.88	0.28
Fourth Quarter			8.20		7.04	where $\mu_{ij}$ is $\mu_{ij}$ and $\mu_{ij}$ $0.15_{ij}$ is small
2000	and the second	1.34.4	1 But s			2013:11:47
2000 First Quarter	S. 3.	\$ \$ \\\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\	8.50	\$	7.38	0.28
Second Ouarter		(30.1)	8.12		7.37	0.28
Third Quarter		284 t. 1.3.	8.93		7.06	0.28
Fourth Quarter			8.18		7.12	0.28
[14] (12] [1 : 1 : 1 : 1 : 1 : 1 : 1 : 1 : 1 : 1	18.7	电影 沙	1981 98			開発し、佐衛教育

Although the declaration of distributions is within the discretion of the Board of Directors and depends on the Company's results of operations, cash available for distribution, the financial condition of the Company, tax considerations (including those related to REITs) and other factors considered important by the Board of Directors, the Company's policy is to make regular quarterly distributions to its shareholders. The same of the first of the same of the s

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#### ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial information for the Company for the years ended December 31, 2001, 2000, 1999, 1998, and 1997, and selected historical balance sheet data as of December 31, 2001, 2000, 1999, 1998, and 1997. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this report.

# WINSTON HOTELS, INC. Selected Historical Financial and Other Data For the years ended December 31, 2001, 2000, 1999, 1998 and 1997 (in thousands, except per share amounts)

Stormants of Theorem (1990)		<u>2001</u>		<u>2000</u>		<u>1999</u>		<u>1998</u>		<u> 1997</u>
Statements of Income: Revenue:	٠.٠	4 17 1 15 <u>1</u> 11						•		
Percentage lease revenue	\$	54,755	\$	62,430	\$	62,237	\$	54,945	\$	35,868
Interest, joint venture and other income		2,715		1,289		433		249	: 4-64 <u>,</u>	234
Total revenue		57,470		63,719		62,670		55,194	r 1	36,102
Expenses:		82.01						".		Tru (1)
Real estate taxes and property and casualty		6.20						10%	ung) i	lime# .
insurance		6,682		6,630		6,356		5,262	1	.2,702
General and administrative		5,419		4,323		4,236		3,889	g <sup>2</sup> sasya <sub>k</sub>	2,095
Interest		12,170		13,491		12,513		8,314	an Ib	2,648
Depreciation		20,792		21,092	-	20,565		16,389	w.v. Octor	10,064
Amortization		968		933		834		465	0 - 1 - 1	520
Total expenses	_	46,031		46,469		44,504		34,319		18,029
Income before loss on sale of properties, allocation		ofter older	1510	an the sing.	v j	ental delibrati	. Tr	សេវស្រាន្យប់នាំ។	iria d	gues ith
to minority interest and cumulative effect of		och arter		nero il tarcero.		of authority	dire.	. iz dolonyc	daco	สมาธิโรกอสาก
change in accounting principle	Ť.			,,,, 17,250		18,166	ener sa	20,875.	Mo b	18,073
Loss on sale of properties		682	_	850		239		<u>li den dati</u>	<u>0) 20</u>	<u>va. 1915. (551)</u>
Income before allocation to minority interest and cumulative effect of change in										
accounting principle		10,757		16,400	٠	17,927		20,875		18,073
Income allocation to minority interest		272		677		1,026		1,349		1,329
Income before cumulative effect of change in		· · · · · · · · · · · · · · · · · · ·							-	
accounting principle		10,485		15,723		16,901		19,526		16,744
Cumulative effect of change in accounting										
principle	_			(668)						
Net income		10,485		15,055		16,901		19,526		16,744
Preferred stock distribution		(6,938)		(6,938)		(6,938)		(6,938)		(2,100)
Net income available to common shareholders	s <u>\$</u>	3,547	\$	8,117	\$	9,963	\$	12,588	\$	14,644
Dannings and share										
Earnings per share:	¢	0.21	¢	. 0.49	¢	0.61	¢ .	0.77	Φ.	0.02
Net income per common share	\$	0.21	\$	0.48		0.61	\$	0.77		0.92
Net income per common share assuming dilution	<u>\$</u>	0.21	<u>\$</u>	0.48	<u>\$</u> _	0.61	<u>\$</u>	0.77	\$	0.91
Weighted average number of common shares Weighted average number of common shares		16,926		16,890		16,467		16,286		15,990
assuming dilution		18,239		18,188		18,108		18,040		17,555
Distributions per common share	\$	0.99	\$	1.12	\$	1.12	\$	1.09	\$	1.08

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u> 1997</u>
Balance Sheet Data (at end of period):			g Free State	1.1743	
Cash \$	887 \$	167	\$ 28 \$	33	\$ 164
Investment in hotel properties	350,087	366,882	388,870	397,861	279,485
Total assets	376,904	394,310	406,071	412,156	287,827
Total debt	170,584	172,672	174,475	173,085	44,081
Shareholders' equity	184,205	198,716	209,078	213,425	217,490
<ul> <li>M. Albertson, C. M. Communication of the Communication of t</li></ul>			April 1995 April 1995	** **	
Other Data:					
Cash provided by (used in):					
Operating activities \$	37,348 \$	39,589	\$ 39,952 \$	34,605	\$ 27,811
Investing activities	(5,967)	(10,231)	(12,658)	(135,398)	(82,349)
Financing activities	(30,661)	(29,219)	(27,299)	100,662	54,468
Lessees' room revenue	125,543	134,977	134,886	117,752	79,526
Funds from operations (1)	26,583	31,268	31,793	30,326	26,037
Cash available for distribution	16,768	23,483	24,735	24,093	21,809

(1) Funds from operations ("FFO"), as defined by the National Association of Real Estate Investment Trusts, is income (loss) before minority interest (determined in accordance with generally accepted accounting principles), excluding extraordinary items and gains (losses) from debt restructuring and sales of operating properties, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. The Company further adjusts FFO by subtracting preferred share distributions and adding the change in deferred revenue during the period to eliminate the impact of Staff Accounting Bulletin No. 101 (see Note 2 to the Consolidated Financial Statements). The calculation of FFO may vary from entity to entity and as such the presentation of FFO by the Company may not be comparable to other similarly titled measures of other reporting companies. FFO is not intended to represent cash flows for the period. FFO has not been presented as an alternative to operating income, but as an indicator of operating performance, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

The following table sets forth selected financial information for CapStar Winston for the years ended December 31, 2001, 2000 and 1999. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included elsewhere in this report.

# CAPSTAR WINSTON COMPANY, L.L.C. Selected Historical Financial Data For the years ended December 31, 2001, 2000 and 1999 (in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Room revenue \$ Other revenue	122,487 13,150	\$ 126,884 14,664	\$ 127,571 14,144
Total revenue	155,057	•	141,715
Rooms expense	27,677	29,202	29,037
Percentage lease expense	54,290	57,995	58,551
Other expenses	51,150	74,606	53,240
Total expenses	133,117	161,803	140,828
Net income (loss)	2,520	\$ (20,255)	\$ 887

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(\$ in thousands, except per share amounts)

Winston Hotels, Inc. ("WHI") operates so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes. During 1994, WHI completed an initial public offering of its common stock ("Common Stock"), utilizing the majority of the proceeds to acquire one hotel and a general partnership interest (as the sole general partner) in WINN Limited Partnership (the "Partnership"). The Partnership used a substantial portion of the proceeds to acquire nine additional hotel properties. These ten hotels were acquired from affiliates of WHI. WHI and the Partnership (collectively the "Company") began operations as a REIT on June 2, 1994. As of December 31, 2001, WHI's ownership in the Partnership was 92.87% (see Note 7 to the consolidated financial statements).

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Property of Assessment

During 1995 and 1996, WHI completed follow-on Common Stock offerings, as well as a Preferred Stock offering in September 1997, and invested the net proceeds from these offerings in the Partnership. The Partnership utilized the proceeds to acquire 28 additional hotel properties. The Company owned 31 hotels as of December 31, 1996 and acquired seven hotels in 1997 (collectively the "1997 Hotels"). During 1998, the Company added 13 additional properties to its portfolio, five of which were internally, developed (the "1998 Hotels"). The Company sold two hotels in 2000 and one hotel in 2001. As of December 31, 2001, the Company wholly owned 48 hotel properties (the "Current Hotels") in 12 states having an aggregate of 6,574 rooms.

The Company also owns a 49% ownership interest in three joint ventures, each of which owns an operating hotel, (collectively the "Joint Venture Hotels."). The Joint Venture Hotels consist of a Hilton Garden Inn located in Windsor, CT, a Hampton Inn located in Ponte Vedra, FL and a Hilton Garden Inn located in Evanston, IL, having a total of 453 rooms. Additionally, the Company has provided mezzanine financing to three unrelated parties, two of which own Hilton Garden Inn hotels having a total of 275 rooms, and one of which owns an independent resort hotel with 679 rooms. The Company has no ownership interest in any property for which it has provided mezzanine financing.

As of December 31, 2001, the Company leased 46 of the 48 Current Hotels to CapStar Winston Company, L.L.C. ("CapStar Winston"), a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"), one of the Current Hotels to Bristol W. Tenant Company, a wholly owned subsidiary of Six Continents Hotels, Inc. ("Six Continents") and one of the Current Hotels to Secaucus Holding Corporation, a wholly owned subsidiary of Prime Hospitality Corp. ("Prime"). CapStar Winston also currently leases two Joint Venture Hotels located in Ponte Vedra, FL and Evanston, IL. Six Continents also currently leases the Joint Venture Hotel located in Windsor, CT. All 48 of the Current Hotels are leased pursuant to separate percentage operating lease agreements that provide for rent payments based, in part, on revenues from the Current Hotels (the "Percentage Leases"). Under the terms of the Percentage Leases, the lessees are obligated to pay the Company the greater of base rent or percentage rent ("Percentage Rent"). The Percentage Leases are designed to allow the Company to participate in the growth in revenues at the Current Hotels by requiring that a portion of each Current Hotel's room revenues in excess of specified amounts will be paid to the Company as Percentage Rent.

CapStar Winston is a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"). As of December 31, 2001, MeriStar, the nation's largest independent hotel management company, leased or managed 275 hospitality properties with more than 57,000 rooms in 41 states, the District of Columbia and Canada.

#### Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements.

#### Revenue Recognition

The Company recognizes contingent percentage lease revenue when each hotel achieves annual specified room revenue hurdles, effectively deferring the recognition of contingent percentage lease revenue from the first and second quarters to the third and fourth quarters of the calendar year. There are no significant estimates involved in the recognition of revenue. Due to the timely remittance of payments, no significant allowance for doubtful accounts is recorded.

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#### Joint Ventures

The Company has a 49% interest in three joint ventures. The Company has determined that it does not have a controlling interest in any of the joint ventures and therefore uses the equity method to recognize its share of net income or loss from the joint ventures and

adjusts the carrying value of the investment accordingly. The joint ventures' assets, liabilities, and equity are not recorded on the Company's balance sheet.

The Company receives current financial information from the joint ventures and performs an analysis to determine its share of income. This analysis includes the review of operational data, significant assets and liabilities, and results of operations to ensure that the Company's interests are realizable. The Company considers the operating trends and expectations for the foreseeable future. The Company believes that these joint venture operations presently support the carrying value of the investments in joint ventures.

#### Impairment of Long-Lived Assets

The Company evaluates the potential impairment of individual long-lived assets, principally the hotel properties. The Company performs an analysis of the operating results of the assets and trends and prospects of the local hotel and lodging market. Key company and industry statistics include occupancy rates, average daily room rates, and revenue per available room ("RevPAR"). Significant changes in the hotel and lodging market could affect the analysis. During the second half of 2001, the industry and the Company experienced a decline in RevPAR. The Company expects the negative trend in RevPAR to continue through the second quarter of 2002. The Company will continue to analyze the operating results of each hotel and evaluate the potential for impairment.

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Derivative Instruments who was a substitution of the state of the substitution of the In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives. Derivatives are used primarily to fix the interest rate on debt based on floating-rate indices and to manage the cost of borrowing obligations. The Company does not use derivatives for trading or speculative purposes. Further, the Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. On December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under its \$125,000 line of credit (the "Line"). The Company's interest rate swap qualifies as a hedge for accounting purposes, and therefore is reported at its fair value on the Consolidated Balance Sheets. Changes in the Company's amounts due to banks could affect the hedge determination. The interest rate swap effectively replaces the Company's variable interest rate based on 30-day LIBOR on \$50,000 of the Line with a fixed interest rate of 5.915% until December 18, 2002, which is two years prior to the expiration of the Line, at which time the variable rate debt will no longer be fixed. The Company plans to continue to monitor its interest rate risk and to manage and limit this risk in accordance with its established interest rate risk management policies.

Results of Operations

For the periods ended December 31, 2001 and 2000, the differences in operating results are attributable primarily to a weakening a commendation of the without economy that was accelerated by the terrorist attacks that occurred on September 11, 2001. The Company sold its Comfort Inn hotel in Raleigh, NC in April 2001, resulting in a net loss of \$682. The Company sold its Comfort Suites hotel in London, Kentucky in February 2000 and its Hampton Inn hotel in Duncanville, Texas in September 2000, resulting in combined net losses of \$850.

and the species of and an end of many managers and because it For the periods ended December 31, 2000 and 1999, the differences in operating results are primarily attributable to the adoption of Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 was issued by the Securities and Exchange Commission in December. 1999 and adopted by the Company effective January 1, 2000. SAB 101 requires that a lessor not recognize contingent rental income until annual specified hurdles have been achieved by the lessees. As a result of SAB 101, the Company recognized an additional \$221 of percentage lease revenue for the year 2000. Had the Company not adopted SAB 101, the Company would have reported percentage lease revenue totaling \$62,209 for 2000, a decrease of \$28 versus \$62,237 for 1999. SAB 101 has no impact on the Company's Funds From Operations ("FFO"), or its interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends.

The terrorist attacks of September 11, 2001 and the effects of the economic recession have led to a substantial reduction in business and leisure travel throughout the United States. As a result, in the fourth quarter of 2001, our RevPAR decreased 11% and our FFO per share decreased 41% from our results for the fourth quarter of 2000. We expect the decline in our year over year RevPAR for the first quarter of 2002 to be generally consistent with the decline we experienced in the fourth quarter of 2001. In addition, we expect the decline in our year over year FFO per share for the first quarter of 2002 to be approximately 31%. Depending on the speed of the economic recovery and other factors, we may experience declines in our year over year RevPAR and FFO per share for the second quarter of 2002 at similar levels. The control of the state of the third of the control of the contro

there is an interference of the control of the following process of the control o Prunder de la desarche de la Roman de Andréa de Marandona de la compresa de la marco de la compresa de la comp La compresa de la compresa de la compresa de la marco de la compresa del compresa de la compresa de la compresa de la compresa del compresa de la compresa della compresa della compresa della compresa della compresa de la compresa de la compresa de la compresa de la compresa della comp The table below outlines the Company's hotel properties owned as of December 31, 2001, 2000 and 1999.

	December	31, 2001	Decem	iber 31, 2000	December 3	31, 1999
1	Acquisitions during	Properties owned at	Acquisitions during	Properties owned at	Acquisitions during	Properties owned at
Type of Hotel	the year	year end	the year	year end	the year	year end
Limited-service hotels	14 1 14 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	27*	tarak ing katawa <u>.</u>	28**	<u>-</u> -	30
Extended-stay hotels		10		10	==	10
Full-service hotels		<u>11</u>	· <u>=</u>	<u>11</u>	of it $\pm$ it.	<u>11</u>
Total	<b>=</b>	<u>48</u>	<b>=</b>	<u>49</u>	==	<u>51</u>

- The Company sold one hotel during 2001 as noted above.
- The Company sold two hotels during 2000 as noted above.

In order to present a more meaningful comparison of operations, the following comparisons are presented:

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operating results for the year ended December 31, 2001 versus operating results for the year ended December 31, 2000;

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operating results for the year ended December 31, 2000 versus operating results for the year ended December 31, 1999;

#### CapStar Winston Company, L.L.C.:

- operating results for the year ended December 31, 2001 versus operating results for the year ended December 31, 2000;
- operating results for the year ended December 31, 2000 versus operating results for the year ended December 31, 1999.

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who expected the control of the wife rest of the first regard with a first ten respectively.

#### The Company

## Year ended December 31, 2001 versus Year ended December 31, 2000

The Company had revenues of \$57,470 in 2001, consisting of \$54,755 of percentage lease revenues and \$2,715 of interest, joint venture and other income. Percentage lease revenues decreased \$7,675 in 2001 from \$62,430 in 2000. This decrease was due primarily to a sharp decline in RevPAR during the last four months of 2001 as a result of a weakening economy accelerated by the terrorist attacks that occurred on September 11, 2001. In 2001, RevPAR decreased 1.4% from January through August, as occupancy declined 6.2%, offset by an increase in the average daily rate of 5.1%. However, RevPAR decreased 12.0% from September through December, including a RevPAR decline of 19.8% in September. During the last four months of 2001, occupancy declined 10.1% and the average daily rate declined 2.2%. Percentage lease revenue also decreased \$756 due to the sale of two hotels during 2000 and one hotel during 2001. Interest, joint venture and other income increased \$1,426 to \$2,715 in 2001 from \$1,289 in 2000. This increase is due primarily to an increase in development and design and purchasing fees, an increase in income generated by the Joint Venture Hotels and an increase in interest income from mezzanine loans. is now the entry that the entitle in the form of the hour facing in their

Real estate taxes and property and casualty insurance expenses remained constant, at \$6,682 in 2001 as compared to \$6,630 in 2000. Real estate taxes increased \$141 due to increased rates and property values in 2001 while property insurance expense decreased \$23 due primarily to a lower number of claims made in 2001. In addition, ground lease expense decreased \$66 in 2001 as a result of lower room revenues at the corresponding hotel. General and administrative expenses increased to \$5,419 in 2001 from \$4,323 in 2000. This increase is due primarily to site acquisition expenses of \$272, costs related to efforts to purchase the Percentage Leases totaling \$255, a decrease in capitalized costs totaling \$341, and loan costs totaling \$124. The loan costs were expensed due to the inability to finalize a collateralized mortgage backed securities debt instrument as a result of the instability in the marketplace caused by the terrorist attacks on September 11, 2001. Interest expense decreased \$1,321 to \$12,170 in 2001 from \$13,491 in 2000, due primarily to a decrease in the annual weighted-average interest rate of 0.74% from 7.77% in 2000 to 7.03% in 2001 and a decrease in weighted average borrowings from \$173,213 in 2000 to \$172,022 in 2001. Depreciation expense decreased \$300 to \$20,792 in 2001 from \$21,092 in 2000, due primarily to the sale of two hotels during 2000 and one hotel during 2001. Amortization expense increased slightly to \$968 in 2001 from \$933 in 2000.

#### Year ended December 31, 2000 versus Year ended December 31, 1999

The Company had revenues of \$63,719 in 2000, consisting of \$62,430 of percentage lease revenues and \$1,289 of interest, joint venture and other income. Percentage lease revenues increased \$193 in 2000 from \$62,237 in 1999. This increase was primarily attributable to an increase in lease revenue due to the Company's adoption of SAB 101 effective January 1, 2000, which resulted in additional lease revenue recognition of \$221. Had the Company not adopted SAB 101, lease revenue for 2000 would have been \$62,209, a decrease of \$28 from its 1999 lease revenue of \$62,237. This decrease was primarily due to a decrease of \$1,348 in percentage lease revenue generated from the 1997 Hotels due to competitive pressures resulting in lower occupancy rates. This decrease also included a decrease of \$421 in percentage lease revenue from the two hotels sold during 2000. This decrease was offset by an increase of \$1,741 in percentage lease revenue generated from the 1998 Hotels due to higher occupancy rates and average daily rates. Most of the 1998 Hotels are full service, up scale hotels, while the 1997 Hotels are mostly limited service hotels. Interest, joint venture and other income increased \$856 to \$1,289 in 2000 from \$433 in 1999. This increase is due primarily to an increase in development and design and purchasing fees and an increase in interest income from mezzanine loans. TO THE RELIGIOUS AND A STREET OF THE PARTY O

Real estate taxes and property and casualty insurance expenses incurred in 2000 were \$6,630, an increase of \$274 from \$6,356 in 1999. Real estate taxes increased \$131 due to increased rates and property values in 2000. Property insurance increased \$143 due primarily to property coverage premium increases. General and administrative expenses remained constant, at \$4,323 in 2000 as compared to \$4,236 in 1999. Interest expense increased \$978 to \$13,491 in 2000 from \$12,513 in 1999, primarily due to an increase in the annual weighted-average interest rate of 0.72% from 7.05% in 1999 to 7.77% in 2000 and a decrease in capitalized interest of \$137 from \$163 in 1999 to \$26 in 2000, offset by a decrease in weighted average borrowings from \$178,038 in 1999 to \$173,213 in 2000. Depreciation expense increased \$527 to \$21,092 in 2000 from \$20,565 in 1999, primarily due to depreciation related to renovations and capital additions completed during 2000 and the second half of 1999 offset by disposals of two hotels sold during 2000. Amortization expense increased \$99 to \$933 in 2000 from \$834 in 1999. The increase is primarily attributable to twelve months of amortization in 2000 of deferred financing costs associated with the Company's then new \$140,000 line of credit; which originated in February 1999, versus eleven months of amortization in 1999.

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#### Year ended December 31, 2001 versus Year ended December 31, 2000

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CapStar Winston had room revenues of \$122,487 in 2001, a decrease of \$4,397 from \$126,884 in 2000. The decrease in room revenues was due to a decrease in occupancy rates from 68.6% to 63.5% partially offset by an increase in the average daily rate of \$3.29 from \$77.29 to \$80.58. RevPAR decreased \$1.86 to \$51.13 in 2001from \$52.99 in 2000. Food and beverage revenue decreased \$645 to \$7,546 in 2001 from \$8,191 in 2000. This decrease was due to a decline in room service, lounge, and banquet related revenues resulting from decreased occupancy. Telephone and other operating departments revenue decreased \$869 to \$5,604 in 2001 from \$6,473 in 2000 due to a decrease in long distance telephone revenue. Increased use of cellular phones and calling cards by business travelers/led-to-this decline. The second second

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CapStar Winston had total expenses in 2001 of \$133,117, a decrease of \$28,686 from \$161,803 in 2000. The decrease was primarily attributable to an asset impairment charge in 2000 of \$21,658 to adjust goodwill created from the acquisition of the leases from Winston Hospitality, Inc. in 1997. This charge is a non-cash adjustment to the carrying value of those assets. Lower lease expense and administrative and general expenses also led to the decline. Lease expense declined as a result of decreased occupancy and room revenues. Administrative and general expenses were lower due to reductions in labor cost; security and corporate reimbursablessen, no cited various and a consistence of the constructions in favor cost, security and corporate the cost reimbursablessen, no cited various and the cost of th

CapStar Winston had room revenues of \$126,884 in 2000, a decrease of \$687 from \$127,571 in 1999. The decrease in room revenues was primarily due to the sale of the Comfort Suites in London, Kentucky by the Company in February 2000, the sale of the Hampton Inn in Duncanville, Texas in September 2000, and a decrease in occupancy rates from 71.0% to 68.6%. Although room revenues decreased, RevPAR increased 0.2% due to a decrease in total rooms available. Food and beverage revenue increased \$176 to \$8,191 in 2000 from \$8,015 in 1999. This increase was due to a rise in room service, lounge, and banquet related revenues. Telephone and other operating departments revenue increased \$344 to \$6,473 in 2000 from \$6,129 in 1999 due to a rise in revenues from movies/videos and banquet production for limited service hotels. If the world of the world will be a compared to the world of the

CapStar Winston had total expenses in 2000 of \$161,803, an increase of \$20,975 from \$140,828 in 1999. The increase was primarily attributable to an asset impairment charge of \$21,658 to adjust goodwill created from the acquisition of the leases from Winston Hospitality, Inc. in 1997. This charge is a non-cash adjustment to the carrying value of those assets. This increase is partially offset by a decrease in expenses attributable to the sale of the Comfort Suites in London, Kentucky in February 2000 and the sale of the Hampton Inn in Duncanville, Texas in September 2000.

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### Liquidity and Capital Resources

The Company finances its operations from operating cash flow, which is principally derived from Percentage Leases. For the year ended December 31, 2001 cash flow provided by operating activities was \$37,348 and FFO was \$26,583. The Company's FFO is equal to net income before allocation to minority interest, (determined in accordance with generally accepted accounting principles) excluding extraordinary items and gains (losses) from debt restructuring and sales of operating properties, plus real estate-related and sales of operating properties. depreciation and amortization, adjustments for unconsolidated partnerships and joint ventures and the change in deferred revenue at the resulting from SAB 101, less preferred share distributions. Under federal income tax law provisions applicable to REITs prior to week January 1, 2001, the Company was required to distribute at least 95% of its taxable income to maintain its tax status as a REIT. For taxable years beginning after December 31, 2000, the taxable income distribution requirement has been reduced to 90%. In 2001, the Company declared total distributions of \$23,694, \$16,756 to its common shareholders and \$6,938 to its preferred shareholders. Based on the Company's 2001 taxable income, the Company was required to distribute approximately \$14,081 to maintain its REIT status as described above. During the fourth quarter of 2001, the Company reduced its quarterly common share dividend from \$0.28 per share, which was paid for the first three quarters of 2001, to \$0.15 per share. This reduction was due to weakening economic conditions, which were further negatively impacted by the terrorist events of September 11, 2001. The Company intends to monitor its dividend policy closely and to act accordingly as earnings dictate. The Company intends to fund cash distributions to shareholders out of cash. flow from operating activities. The Company may incur, or cause the Partnership to incur, indebtedness to meet its dividend policy or the distribution requirements imposed on the Company under the Internal Revenue Code (including the requirement that a REIT distribute to its shareholders annually at least 90% of its taxable income) to the extent that available capital and cash flow from the Company's investments are insufficient to make such distributions. and the second of the second o

The Company's net cash used in investing activities during the year ended December 31, 2001 totaled \$5,967, consisting of cash outflows for mezzanine financing, capital expenditures, renovation of hotels and investments in joint ventures, offset by proceeds from the sale of one hotel and proceeds from the settlement of a lawsuit.

In 2001 and 2000, the Company made three mezzanine loans totaling \$3,516 to third party hotel owners. During 2001, the Company provided \$2,186 in mezzanine financing to Noble Investments - Tampa, LLC to develop a Hilton Garden Inn in Tampa, FL (the "Tampa Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 8.44% until the earliest of (a) prepayment of the loan, (b) the initial maturity date of January 1, 2004, or (c) the earlier of (1) 60 days before the maturity date of the borrower's qualified refinancing, or (2) February 1, 2006. During 2000, the Company provided \$1,080 in mezzanine financing to Noble Investments - Sugarloaf, LLC to develop a Hilton Garden Inn in Atlanta (Sugarloaf), GA (the "Sugarloaf Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 7.36% until the earlier of (a) prepayment of the loans. or (b) June 30, 2005. Both loans are subject to prepayment penalties during the first three years. When each hotel opened, the source of Company began to earn interest equal to 2% of gross revenues, 25% of which is paid monthly and the remainder is accrued ("Accrued Interest"). On the earlier of prepayment or the maturity date of each loan, the Company will also receive the greater of the Accrued Interest or, with respect to the Tampa Hotel, 20% of the appreciation in value, and with respect to the Sugarloaf Hotel, 15% of the appreciation in value. In addition to earning interest income, the Company also provided development and purchasing services to Noble during each hotel's construction stage for additional fee income. The Company co-developed the Sugarloaf Hotel and the construction stage for additional fee income. developed the Tampa Hotel. During 2001 and 2000, these fees totaled \$645 and \$137, respectively. Both the Tampa Hotel and the Sugarloaf Hotel are owned 100% by unaffiliated single purpose entities (the "Borrowers"). The Company holds collateral equal-to-ties 100% of the ownership interest in the Borrowers. The Borrowers made initial equity investments equal to 20% of the total cost of the respective hotel, and there are certain default provisions under which the Company may declare the loan immediately due and payable or may step in and take control of the Borrowers, including for failure to maintain specified debt coverage ratios. Noble Investments LLC and the Noble Company, LLC each unconditionally guaranteed the loan for the benefit of the Company. The Atlanta (Sugarloaf) project opened during the second quarter of 2001, and the Tampa project opened during the first quarter of 2002. In 2001, the Company also provided mezzanine financing totaling \$250, which represents a participating interest in a \$5,478 mezzanine loan to the owner of a 769-room resort hotel in Orlando, FL. and the state of the to appear our grown as service as the province with the result of the figure of the first of a discount of the first of th

During 2001, the Company spent \$9,436 or 7.5% of the lessees' room revenue, in connection with the renovation of its Current Hotels and plans to spend approximately \$6,500 during 2002. Pursuant to the Percentage Leases, the Company is required to spend 5% of room revenues for its hotels (7% of room revenues and food and beverage revenues for one of its full service hotels) for periodic capital improvements and the refurbishment and replacement of furniture, fixtures and equipment at its Current Hotels. These capital expenditures are funded from operating cash flow, and possibly from borrowings under the Company's \$125,000 line of credit (the "Line"), sources that are expected to be adequate to fund such capital requirements. These capital expenditures are in addition to amounts spent on normal repairs and maintenance, which were approximately 5.1% of room revenues in both 2001 and 2000 and are paid by the lessees.

During 1999, the Company entered into a joint venture agreement with a subsidiary of Regent Partners, Inc. (the "Regent Joint Venture") to jointly develop and own upscale hotel properties. The Regent Joint Venture consists of two separate joint ventures, each of

which owns one hotel. The first hotel developed under the Regent Joint Venture was a \$16 million, full service 157-room Hilton Garden Inn in Windsor, CT, opened in September 2000. The second hotel, a \$20 million, 178-room Hilton Garden Inn in Evanston, IL, opened in July 2001. Telefolia forms form and will The Line of the Control of the Contr

Regent currently may offer the Company the right to purchase its interest in either of the Regent Joint Ventures and, if the Company refuses to purchase the interest, Regent may cause the joint venture to sell the hotel owned by the applicable joint venture to a third party. In addition, at the Company's option, it has the right to acquire Regent's interest in either joint venture (1) at any time after 60 months following the date the applicable hotel commenced operations or (2) if Regent fails to sell the applicable hotel following the Company's rejection of an offer by Regent to sell the Company its interest in that joint venture. The Company owns a 49% ownership interest in the Regent Joint Venture.

Additionally, in April 2000, the Company entered into a joint venture agreement with Marsh Landing Investment, LLC ("Marsh") to jointly develop an \$8 million, 118-room Hampton Inn in Ponte Vedra, FL. This hotel opened in December 2000. The Company owns 49% of the joint venture, and Marsh, a company owned by Charles M. Winston and James H. Winston, owns the remaining 51%. Both Charles M. Winston and James H. Winston serve on the Company's Board of Directors. Marsh currently may offer the Company the right to purchase Marsh's interest in the joint venture and, if the Company refuses to purchase the interest, Marsh may cause the joint venture to sell the hotel owned by the joint venture to a third party. In addition, at the Company's option, it has the right to acquire Marsh's interest in the joint venture (1) at any time after December 2005 or (2) if Marsh fails to sell the hotel following the Company's rejection of an offer by Marsh to sell it's interest in the joint venture to the Company.

During 2001, the Company received cash distributions from the three joint ventures totaling \$1,029. Under the terms of the joint ventures, the Company has provided property development and purchasing services and will continue to provide ongoing asset management services for additional fee income. Fifty-one percent of such fee income is recognized as revenue, and 49% as a reduction of investment in the joint ventures, based on the Company's ownership level in each joint venture hotel. Such income earned during 2001 and 2000 totaled \$286 and \$308, respectively. Under the terms of the operating agreement for each joint venture, the Company must approve all major decisions, including refinancing or selling the respective hotels, making loans, changes in partners' interests, entering into contracts of \$25 or more, and purchasing or acquiring assets. As of December 31, 2001, the total assets of the three joint ventures were \$44,925, total liabilities were \$27,887 (\$27,068 of which represented long-term debt), and total equity was \$17,038. The Company's 49% proportionate share of the total assets, liabilities, long-term debt and equity equated to \$22,013, \$13,665, \$13,263 and \$8,349, respectively. For the years ended December 31, 2001 and 2000, the total revenue of the three joint ventures was \$4,394 and \$414, and total expenses were \$3,326 and \$478, resulting in net income(loss) of \$1,068 and \$(64), respectively. During the year ended December 31, 2001, the unaudited financial statements of the joint ventures reflected aggregate cash flow provided by operating activities of \$2,261, cash used in investing activities of \$14,487, principally for hotel additions, and cash provided by financing activities of \$11,448, principally in the form of loan proceeds and capital contributions less distributions to joint venture partners.

The Company is actively seeking one or more institutional investors as joint venture partners to acquire: (i) hotels for repositioning, (ii) hotels for rehabilitation and (iii) hotels that could benefit from new management and additional capital. The Company expects to make a minority interest investment in any joint venture formed and expects to receive fees for overseeing the joint venture's properties and operations. In addition to generating development, purchasing and asset management fee income and thus enhancing the Company's revenues and cash flow, the Company expects to receive other benefits from joint venture agreements, such as expanded affiliations with leading upscale brands and growth in the Company's portfolio with limited equity investments.

The Company owns a 50% interest in a joint venture with an affiliate of Concord Hospitality Enterprises, Inc. This joint venture currently has no operations, but it has two hotels under contract for purchase at prices aggregating approximately \$7.0 million. The Company estimates that these two hotels will require an additional approximately \$8.0 million in renovations. Under certain circumstances, Concord will have the right to purchase the Company's interest in the two hotels.

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The Company sold its Comfort Inn hotel in Raleigh, NC during 2001. The total proceeds were \$3,800. The Company also sold a parcel of land during 2001 for proceeds totaling \$508. The Company also is considering the sale of certain other non-core hotels that lie outside the Company's "mid-scale without food and beverage" and "upscale" segment focus and plans to use the proceeds to reduce debt, invest in hotel properties, or provide mezzanine loans. 

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The Company's net cash used in financing activities during the year ended December 31, 2001 totaled \$30,661. This net use of cash was primarily due to the payment of distributions to shareholders of \$25,887 and the payment of distributions to the Partnership's minority interest of \$1,454. This amount also includes principal payments totaling \$1,188 related to the Company's \$71,000 fixed rate note. The second subject to the second second

On December 19, 2001, the Company amended and restated its previous \$140,000 line of credit with the same group of banks, led by Wachovia Bank, N.A. Fees paid in connection with the new financing facility totaled \$1,232. The new \$125,000, three-year line of credit (the "Line") bears interest at rates from LIBOR plus 1.75% to 2.50%, based on the Company's consolidated debt leverage and ratio. The Line is collateralized with 28 of the Current Hotels, with a net book value of \$200,786 as of December 31, 2001. The Company used the proceeds from the Line to pay off the outstanding balances under the previous \$140,000 line of credit. During 2001, the Company reduced the outstanding balance under its line of credit \$900, from \$103,800 to \$102,900. In accordance with the provisions of the Line, the Company's availability under the Line totaled approximately \$14,300 as of December 31, 2001. The Line requires the Company to maintain certain financial ratios including maximum leverage, minimum interest coverage and minimum fixed charge coverage, as well as certain levels of unsecured and secured debt and tangible net worth, all of which the Company was in compliance with as of December 31, 2001.

The Company had \$67,684 in debt at December 31, 2001 that was subject to a fixed interest rate and fixed monthly payments with GE Capital Corporation. This debt, a ten-year loan with a 25-year amortization period, carries an interest rate of 7.375%. All unpaid principal and interest are due on December 1, 2008. The GE Capital loan is collateralized with 14 of the Company's Current Hotels with a net book value of \$117,427 as of December 31, 2001. An additional substitution of the second of the second

On December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under the Line. This transaction effectively replaced the Company's variable interest rate based on 30-day LIBOR on \$50,000 of outstanding. debt under the Line with a fixed interest rate of 5.915% until December 18, 2002. The Line's interest rate spread is currently 2.25%, equaling a fixed rate of 8.165% on \$50,000 until December 18, 2002.

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In August 2000, the Company announced that its Board of Directors authorized the Company to purchase up to 1,000,000 shares of its Common Stock. In making the determination of whether or not to buy shares of Common Stock, management thoroughly analyzes the yield on such a buyback versus the yield from alternative uses of capital. Management also considers that when borrowing under the Line to purchase Common Stock, the Company's availability under the Line is permanently impaired. To date the Company has determined that a Common Stock buyback is not in the best interest of its shareholders. Control of the Control of the State of the seg-

The state of the second As of December 31, 2001, the Company's contractual obligations and commitments (excluding obligations and commitments pursuant to the Company's joint ventures) were as follows:

#### Payments Due by Period Payments Due by Period

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Lo	ng-term debt		\$ 67,684	\$	1,278	\$	2,856	\$	3,308	\$	60,242	
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Lir	ne of credit		\$ 102,900	\$		\$	102,900	\$		\$		

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The Company intends to continue to seek additional mezzanine loan opportunities and to acquire and develop additional hotel properties that meet its investment criteria and is continually evaluating such opportunities, as well as other investment opportunities including, but not limited to, the acquisition of assets that require substantial renovation and repositioning within a particular market. It is expected that future mezzanine loans and hotel acquisitions will be financed, in whole or in part, from additional follow-on offerings, from borrowings under the Line, from joint venture agreements, from the net sale proceeds of hotel properties and/or from the issuance of other debt or equity securities. There can be no assurances that the Company will make any further mezzanine loans or any investment in additional hotel properties, or that any hotel development will be undertaken, or if commenced, that it will be completed on schedule of on budget. Furthermore, there can be no assurances that the Company will be able to obtain any additional financing.

CapStar Winston leases 46 of the 48 properties the Company wholly-owns, and leases two of the three properties in which the Company owns a 49% interest. CapStar Winston does not lease any hotel for which the Company has provided mezzanine financing. CapStar Winston's largest source of funds is cash flows from operations, which provided \$209 in 2001, but used \$235 in 2000 and \$820 in 1999. During the three year period ended December 31, 2001, CapStar Winston advanced an aggregate of \$7,444 to its 99%

owner, MeriStar H&R Operating Company, L.P. (MHOC). As of December 31, 2001, cumulative advances to MHOC amounted to \$12,386 and are recorded as current assets. At that date, total current assets of CapStar, exclusive of the advances receivable from MHOC, amounted to \$3,889, while current liabilities amounted to \$11,144. Repayment to CapStar Winston by MHOC of these advances may be dependent on the financial condition and future profitable operations of MHOC and/or its parent company and affiliates. MeriStar Hospitality Corporation, an affiliate of both CapStar Winston and MHOC, has guaranteed amounts due and payable to the Company, up to \$20,000, under the 46 properties CapStar Winston leases and the Company wholly-owns.

If CapStar Winston's operations are adversely affected by economic or other circumstances, it may be unable to meet its obligations to Winston for the hotel leases, which amount to a minimum of \$34,352 for each of the next 5 years, and an aggregate of \$206,433 thereafter. If CapStar Winston defaults under the terms and conditions of any hotel lease with the Company, the remainder of all such leases shall be deemed to be in default. If this occurs, the Company has the right to terminate all of the CapStar Winston leases and to replace CapStar Winston with another lessee without any further obligations to CapStar Winston.

The Company is currently negotiating with CapStar Winston to acquire the 46 operating leases for the hotels that the Company owns 100% of and the two operating leases for the hotels that the Company owns a 49% ownership interest in through joint venture agreements. If successful, the Company expects to lease these 48 hotels to new taxable REIT subsidiaries as permitted under the REIT Modernization Act that became effective January 1, 2001. In such event, the Company's taxable REIT subsidiaries would enter into hotel management agreements with third party management companies, which qualify as eligible independent contractors, to manage the hotels. However, there can be no assurance that the Company will be able to successfully negotiate and complete the acquisition of these leases and enter into a taxable REIT subsidiary lessee structure.

### Recently Issued Accounting Standards: Listing Lineard processing and in Linear Control of the Co

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 141, "Business Combinations," ("SFAS No. 141"). SFAS No. 141 supersedes APB Opinion No. 16, "Business Combinations," and FASB Statement No. 38, "Accounting for Pre-acquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires: (1) that all business combinations be accounted for by the purchase method, thereby eliminating the pooling method, (2) that assets (including intangible assets) be recognized and valued apart from goodwill, and (3) that additional disclosures be made regarding business combinations and the resulting allocation of purchase price. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001 and to all purchase method acquisitions dated on or after July 1, 2001. The Company's adoption of SFAS No. 141 did not have a material impact on the Company's financial statements or results of operation.

In June 2001, the FASB issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 142 supersedes APB Opinion No. 17, "Intangible Assets" and primarily addresses accounting for goodwill and other intangible assets subsequent to their acquisition. The major provisions include (1) the ceasing of amortization of goodwill and indefinite lived intangible assets at least annually, and (3) the removal of the restriction that the maximum amortization period of intangible assets with finite lives be limited to 40 years. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001 (with the exception that any goodwill or intangible assets acquired after June 30, 2001 will be subject immediately to the statement's provisions) with application being required at the beginning of an entity's fiscal year. Any impairment losses from the initial application are to be reported as a cumulative effect of a change in accounting principle in accordance with APB 20, "Accounting Changes." The Company's adoption of SFAS No. 142 is not expected to have a material impact on the Company's financial statements or results of operations.

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In October 2001, the FASB issued FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121") and APB 30, "Reporting the Results of Operations'—Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequent Occurring Events and Transactions." In summary, SFAS No. 144 retains the fundamental recognition and measurement provision of SFAS No. 121, however, establishes a "primary-asset" approach to determining the cash flow estimation period for a group of assets and liabilities. SFAS No. 144 retains the basic provisions of APB 30, but broadens the presentation to include a component of an entity. In addition, discontinued operations are no longer measured on a net realizable value basis and future operating losses are no longer recognized before they occur. Rather, they are carried at the lower of its carrying amount or fair value less cost to sell. The provisions of SFAS No. 144 are required to be applied for fiscal years beginning after December 15, 2001. The Company's adoption of SFAS No. 144 is not expected to have a material impact on the Company's financial statements or results of operations.

#### Seasonality and the Harman speed and the contract of the

The Company's operations historically have been seasonal in nature, reflecting higher RevPAR during the second and third quarters. This seasonality and the structure of the Percentage Leases, which provide for a higher percentage of room revenues above the minimum equal quarterly levels to be paid as Percentage Rent, can be expected to cause fluctuations in the Company's receipt of quarterly lease revenue under the Percentage Leases. SAB 101, which requires that a lessor not recognize contingent rental income until the lessee has achieved annual specified hurdles, effectively defers recognition by the Company of a significant portion of percentage lease revenue from the first and second quarters to the third and fourth quarters of the calendar year. SAB 101 has no impact on the Company's FFO, or on its interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends (see Note 2 to the Company's consolidated financial statements).

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This report contains certain "forward looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by use of words like "may," "will," "expect," "anticipate," "estimate," or "continue" or similar expressions. These statements represent the Company's judgment and are subject to risks and uncertainties that could cause actual operating results to differ materially from those expressed or implied in the forward looking statements, including but not limited to the following risks: properties held for sale will not sell, financing risks, development risks including the risks of construction delays and cost overruns, lower than expected occupancy and average daily rates, non-issuance or delay of issuance of governmental permits, zoning restrictions, the increase of development costs in connection with projects that are not pursued to completion, non-payment of mezzanine loans, failure to attract joint venture opportunities and other risk factors described in Exhibit 99.1 attached to this report and hereby incorporated herein by reference.

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## Risks Relating to Qur Business and of the first that the second of the first transfer of the second of the second

The events of September 11, 2001, as well as the U.S. economic recession, have adversely impacted the hotel industry generally, and we have experienced an adverse effect on our results of operations.

Prior to September 11, 2001, our hotels had begun experiencing declining revenue per available room, or "RevPAR," as a result of the slowing U.S. economy. The terrorist attacks of September 11, 2001 and the effects of the economic recession have led to a substantial-reduction in business and leisure travel throughout the United States, and industry RevPAR generally, and RevPAR at our hotels specifically, has declined substantially since September 11. While RevPAR at our hotels has improved from the depressed levels in the weeks immediately following the events of September 11, RevPAR at our hotels remains below pre-September 11 levels and may remain at such depressed levels. We cannot predict the extent to which the events of September 11 and the economic recession will continue to directly or indirectly impact the hotel industry or our operating results in the future. Continued depressed RevPAR at our hotels which we expect in the near term could have an adverse effect on our results of operations and financial condition, including our ability to remain in compliance with the covenants contained in our debt instruments, our ability to fund capital improvements and renovations at our hotels and our ability to make dividend payments necessary to maintain our REIT tax status. Additional terrorist attacks could have further material adverse effects on the hotel industry and our operations.

#### We may not have access to financing for acquiring or developing additional hotels.

Our ability to pursue our growth strategy depends, in part, on our ability to finance additional hotel acquisitions and development. We are subject to restrictions that may limit our ability to take advantage of expansion opportunities that we believe are attractive. Our existing \$125 million line of credit limits our borrowing availability to a percentage of the value of the hotels provided as collateral, with the value determined in part by the cash flow generated by those hotels. As a result, as of December 31, 2001, we had approximately \$117.2 million available for borrowing under our line of credit, of which \$102.9 million was outstanding. If we need to borrow funds under the line of credit in excess of our current borrowing availability, we must provide additional collateral, which may not be available, to increase our borrowing availability to the total amount of debt we need, up to a maximum amount \$125 million. In addition, our articles of incorporation limit our debt to 60% of the cost of our investment in hotel properties.

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Our ability to raise additional equity capital will depend on market conditions. We cannot assure you that we will be able to raise funds through a public or private offering at a time when we need access to funds. We may seek alternative methods of funding expansion, such as joint venture development; however, we cannot assure you that such opportunities will be available when we need them or on acceptable terms.

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Our ability to make distributions to our shareholders depends upon the ability of our lessees to make rent payments under our leases, particularly the ability of one lessee that accounts for most of our revenue.

Our income depends upon rental payments from lessees of our hotels. Any failure or delay by the lessees in making rent payments would adversely affect our ability to make distributions to our shareholders. Our lessees ability to make rental payments depends on their ability to generate sufficient revenues from our hotels in excess of operating expenses. Our leases require the lessees to pay us (1) the greater of a base rent or percentage rent and (2) other additional charges. As a result, we participate in the economic operations of our hotels through our share of room revenues which exceed threshold amounts specific to each hotel. The lessees' ability to pay on time or at all could be negatively affected by reductions in revenue from the hotels or in the net operating income of the lessees or otherwise. Our lessees also will be affected by factors beyond their control, such as changes in the level of demand for rooms and related services of our hotels, their ability to maintain and increase gross revenues at our hotels and other factors. Forty-eight of our 51 hotels are leased to CapStar Winston Company, L.L.C., a subsidiary of MeriStar Hotels and Resorts, Inc. For 2001, approximately 93% of our percentage lease revenue was generated by lease payments from CapStar Winston. Therefore, any operating difficulties or other factors specifically affecting CapStar Winston's ability to maintain and increase gross revenues at our hotels and to pay rent to us could significantly adversely affect our financial condition and results of operations. All which are the second of the secon

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#### Our returns depend on management of our hotels by third parties.

In order to qualify as a REIT, we cannot operate any hotel or participate in the decisions affecting the daily operations of any hotel. Either our lessees, or an operator under a management agreement with a lessee, controls the daily operations of our hotels. Under the REIT Modernization Act of 1999 (the "RMA"), which became effective January 1, 2001; REITs are permitted to lease their hotels to wholly owned taxable REIT subsidiaries of the REITs ("TRS Lessees"). Even under the RMA, TRS Lessees may not operate the leased hotels and must enter into management agreements with eligible independent contractors that will manage the hotels. We do not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (e.g., setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in anticipated rent payments under existing leases, we cannot require a change to the method of operation. In particular, if the hotels leased by CapStar Winston were operated in an inefficient or ineffective manner; we would not be able to require changes in the operation of those hotels, and the rent from those hotels constitutes most of our revenue. We can only seek redress if a lessee violates terms of its lease, and then only to the extent of the remedies provided for under the terms of the lease. istát it a filha Martiga je sabra a sta hat sub ita subjecta sa a a a tatara subjecta se in a tratar se se inte

In addition, our growth strategy contemplates additional hotel acquisitions that meet our investment criteria and selective development of hotels as market conditions warrant. Our ability to grow depends, in part, upon the ability of our lessees and any thirdparty managers to manage our current and future hotels effectively. If the lessees or the third-party managers are not able to operate additional hotels at current staffing levels and office locations, they may need to hire additional personnel, engage additional thirdparty managers and/or operate in new geographic locations. If the lessees or the managers fail to operate the hotels effectively, our said ability to generate revenues from the hotel leases could be diminished. We have the ball. 27 color properties as collected to all the day bas of our tit and our terrificacións, and has produced as butes

#### We have a significant level of debt that may limit our ability to take certain actions: dealt and a series of the control of t when the definition additions out been the religibly of generous ended to be about the book of the book of the

We currently have a significant amount of debt. As of December 31, 2001, we had \$102.9 million outstanding under our line of credit and Winston SPE, LLC, a special purpose financing subsidiary of WINN Limited Partnership (a partnership of which we are the sole general partner), had \$67.7 million outstanding under a fixed-rate loan. As of December 31, 2001, the total liabilities of our three joint ventures were \$27.9 million (\$27.4 million of which represented long-term debt). Our 49% proportionate share of such total liabilities and long-term debt equated to \$13.7 million and \$13.3 million. Our level of debt could have important consequences to you. For example, it could be obliged and as a decrease of the analysis of the second of th t anticlos. In the griffetene applantad and and and read party reported of the down ownit 1988 the desparation in the arms.

- impair our ability to obtain additional financing; if needed, for working capital, capital expenditures, acquisitions or other purposes า เรื่อนสมาภิษา ๆ เซาซิฟิตรา กระกร์ รองสาร์เซีร์ โด รายสม in the future:
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing our funds available for operations, future business opportunities and other purposes; ar in the efficiency for the Linear region became and and creation of a companion are a deep process and confidence
- place us at a disadvantage compared to competitors that have less debt; which is a disadvantage compared to competitors that have less debt; which is a disadvantage to the less debt; wh
- increase our vulnerability to adverse economic, industry and business conditions.

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If we or our financing subsidiary do not have sufficient funds to repay our debt at maturity, it may be necessary for us to refinance our debt through additional debt financing, private or public offerings of debt securities or additional equity offerings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancings, increases in interest expense could adversely affect our cash flow and, consequently, cash available for distribution to shareholders. If we are unable to refinance our debt on acceptable terms, we or our financing subsidiary may be forced to dispose of hotels or other assets on disadvantageous at terms, potentially resulting in losses and adverse effects on cash flow from operating activities. If we are unable to make required payments of principal and interest on debt secured by our hotels, one or more of those properties could be foreclosed upon by the lender with a consequent loss of revenue and asset value.

## The covenants governing our debt imposes ignificant restrictions on use an entertainment of the expensive and the expensive of the expensive o

The terms of our line of credit impose significant operating and financial restrictions on us and require us to meet certain financial tests, including leverage ratios, maximum unsecured and secured debt ratios, interest and fixed charge coverage ratios and minimum tangible net worth requirements. These restrictions may also have a negative impact on our business, financial condition and results of operations by significantly limiting or prohibiting us from engaging in certain transactions, including:

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- incurring or guaranteeing additional indebtedness;
- paying dividends in excess of 85% of our funds from operations over the most recent four quarters; and the state of the
- making capital expenditures and other investments; The first transfer of th
- creating liens on our assets; and the control of the control of
- engaging in mergers, consolidations or the sale of all or a substantial portion of our assets.

The failure to comply with any of these covenants would cause a default under our line of credit. Furthermore, our line of credit provides that any default under, or acceleration of, any of our other debt, any debt of WINN Limited Partnership or any debt of our subsidiaries, including any default by our financing subsidiary under its fixed-rate loan or otherwise, will constitute a default under the line of credit. Any of these defaults, if not waived, could result in the acceleration of the indebtedness under our line of credit. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it, in which case we would not be able to make distributions to our shareholders. Even if new financing were available, it may not be on terms that are acceptable to us

If our cash flow decreases, we may be required to provide additional collateral under our line of credit or take other actions that would adversely affect our financial condition and results of operations.

We have pledged 28 hotel properties as collateral to secure the line of credit and our financing subsidiary has pledged 14 hotel properties to secure the fixed-rate loan. Both loan agreements prohibit pledging any hotel pledged as collateral under that facility to secure other debt. Our line of credit limits our borrowing availability to a percentage of value of the hotels provided as collateral, with the value determined in part by the cash flow generated by those hotels. Our current cash flow from the hotels securing the line of credit limits our borrowing availability under the line of credit, which as of December 31, 2001; was \$117.2 million. If we need to borrow funds under the line of credit in excess of our borrowing availability, we must provide additional collateral to increase our borrowing availability is less than the amount outstanding under the line of credit, we must either (1) repay the excess of the amounts outstanding over our borrowing availability or (2) with the unanimous consent of the lenders, provide additional collateral to increase our borrowing availability. If we were unable to repay the excess debt over our borrowing availability or provide additional collateral, the resulting payment default would entitle our lenders to exercise one or more remedies, including foreclosing on one or more of the properties pledged as collateral.

#### Rising interest rates could adversely affect our cash flow. The state of the state

Our borrowings under our line of credit bear interest at a variable rate. Our line of credit requires that we maintain at least 50% of our total debt at a fixed rate of interest. Although we have entered into agreements that limit our interest rate exposure on a portion of the outstanding debt under our line of credit, outstanding debt of up to \$52.9 million under our line of credit remains subject to variable interest rates. We may incur debt in the future that bears interest at a variable rate or we may be required to refinance our existing debt at higher interest rates. Accordingly, increases in interest rates could increase our interest expense and adversely affect our cash flow.

## We may not be able to complete development of new hotels on time or within budget; so we have not a less than the first of the first of

We intend to develop additional hotel properties as suitable opportunities arise. New project development is subject to a number of risks that could cause increased costs or delays in our ability to generate revenue from any development hotel, reducing our cash available for distribution to shareholders. These risks include:

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- competition for suitable development sites; uniforce a feet to adopte a language of the following the feet and the energy of the
- receipt of zoning, occupancy and other required governmental permits and authorizations; and

  washing and hards and all the day when a second washing and the second areas of the second and the second areas are second.
- substantial development costs in connection with projects that are not completed.

  Evaluated Political protection includes whatem delaw provided a multiplication of plants and the major transfer of the major transfer o

We may not be able to complete the development of any projects we begin and, if completed, our development and construction of activities may not be completed in a timely manner or within budget, and the construction of the completed in a timely manner or within budget, and the construction of the constru

We also intend to rehabilitate hotels that we believe are underperforming. These rehabilitation projects will be subject to the same risks as development projects.

Hotels that we develop have no operating history and may not achieve levels of occupancy that result in levels of percentage but rent that provide us with an attractive return on our investment.

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The new hotels that we develop have no operating history. We will negotiate the percentage rent formula for these hotels based on projections of occupancy and average daily room rates for the area in which each hotel is or will be located and the type of hotel under development. However, these hotels may not achieve anticipated levels of occupancy or average daily room rates. Similarly, during the start-up period, room revenues may be less than required to result in the payment of rent at levels that provide us with an attractive return on our investment.

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## Property ownership through joint ventures and partnerships could limit our control of those investments. A discount of the entry of those investments and the entry of the ent

Joint ventures of partnerships (other than WINN Limited Partnership) involve risks not otherwise present for investments we make on our own! It is possible that our co-venturers or partners may have different interests or goals than we do at any time and that they may take actions contrary to our requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT. Other risks of joint venture investment include impasses on decisions, because no single co-venturer or partner has full control over the joint venture or partnership. Each of our venture partners for our three existing joint venture properties has the right; after the first twelve months of the hotel's operation, to sell the hotel developed by the joint venture to us, or, if we elect not to purchase, to sell such hotel to a third party. In addition, future joint ventures may include other restrictions on us, including requirements that we provide the joint venture with the right of first offer or right of first refusal to acquire any new property we consider acquiring directly.

#### Our business could be disrupted if we need to find a new lessee upon termination of an existing lease.

If our lessees fail to materially comply with the terms of a hotel lease (including failure to pay rent when due), we have the right to terminate the lease, repossess the applicable hotel and enforce payment obligations under the lease. If CapStar Winston defaults under any lease, the default will constitute a default under all of our leases with CapStar Winston and its affiliates. Thus, we will have the right to terminate all of those leases. Upon termination, we would have to find another lessee or establish or identify a TRS Lessee to lease the property. In either case, we cannot operate the hotels directly due to federal income tax restrictions. We cannot assure you that we would be able to find another lessee or operator or that if another lessee or operator were found, we would be able to enterwointo new leases or management contracts favorable to us. There would be disruption during any change of hotel management that could adversely affect our operating results. In addition, it is possible that we would not be able to enforce the payment obligations under the leases following termination.

If we decide to sell hotels, we may not be able to sell those hotels on favorable terms and may be required to pay termination fees to the lessees of those hotels able to all the best ones a fee. A tradget was traded a relief with the research of the selection of the selection

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We have contracts to sell our Durham, North Carolina Hampton Inn hotel and our Clearwater, Florida Comfort Inn hotel. If the sale of our Hampton Inn hotel in Durham, North Carolina closes, we will recognize a gain on the sale of approximately \$900,000 subject to final negotiations of a lease termination payment with the lessee. If the sale of our Comfort Inn hotel in Clearwater, Florida closes, we will recognize a loss on the sale of approximately \$800,000. Each of the purchasers under these two contracts is in a due diligence

period during which that purchaser may terminate its contract without penalty. If either purchaser elects not to terminate its contract, we would anticipate closing the sale of that hotel within 60 days. Although none of our other hotels is currently under contract to sell, we may decide to sell hotels in the future. We may not be able to sell such hotels on favorable terms; and such hotels may be sold at a loss.

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Furthermore, under our leases, upon the sale of a hotel, we must either pay a termination fee to our lessee or offer to lease another suitable property to the lessee. The amount of the termination fee would depend on the revenue from the hotel and the remaining term of the lease. Alternatively, we may negotiate with our lessee to waive the lease provision and arrange for the lessee to continue to lease the property from the buyer. If we were not able to successfully negotiate such a continuation of the lease, we would be required to pay a termination fee, lease another suitable property or abandon the sale transaction.

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#### We may face conflicts of interest relating to sales of hotels acquired from affiliates.

We have acquired 14 hotels in the past from related parties of our affiliates, which include Robert Winston, our Chief Executive Officer, and Charles Winston, our Chairman of the Board. The limited partners of WINN Limited Partnership, including Robert of Winston and Charles Winston, may have unrealized gain associated with their interests in these hotels. Our sale of any of those hotels may cause adverse tax consequences to the limited partners. Therefore, our interests could conflict with the interests of the limited partners in connection with the disposition of one or more of those 14 hotels, including the limited partners who may be in a position to exert influence over other board members who will determine whether we sell these hotels.

#### We depend on key personnel. In soft groups and the many market in a grown bus, granded and the constraint must have their restricted

We depend on the efforts and expertise of our President, Chief Executive Officer, Chief Financial Officer, Controller and Executive Vice President of Development to drive our day-to-day operations and strategic business direction. The loss of any of their services could have an adverse effect on our operations. The loss of any of their services could have an adverse effect on our operations.

sources. However, those be as supplied acres a stategorod for a all occupants of several acres and a seek. Hadhare fairer

#### Our borrowers may fail to repay all on a portion of the mezzanine loans owed to us and the property both and the same of

We face special risks in connection with our mezzanine loans to borrowers for the purpose of building and owning hotels. We are subject to risks of borrower defaults bankruptcies; fraud and losses and special hazard losses that are not covered by standard hazard insurance. We expect that each mezzanine loan will be made to a single purpose entity whose sole asset would be a hotel being built or renovated. Our present mezzanine loans are not, and we do not expect that any of our future mezzanine loans will be, collateralized by the hotel being built or any other debt of the single purpose entity. Mezzanine loans involve a higher degree of risk than long-term senior mortgage lending that is secured by income- producing real property for a variety of reasons including, among other things, dependency on the success of a project which a third party controls and that a foreclosure by the holder of the senior loan could result in a mezzanine loan becoming uncollectible. Additionally, mezzanine loans may have higher loan to value ratios than conventional term loans. The borrowers may not be able to repay their obligations under their senior loans or our mezzanine loans, in which case we could suffer a total or partial loss on our mezzanine loans. The borrower under a mezzanine loan in which we have a \$250,000 participation interest is currently in default of its payment obligations under the loan and other existing or future borrowers may become in default on our mezzanine loans.

## If third parties for whom we develop hotels default on their loans, we may be required to complete the development of those photels atour lown expenses and the second and the second parties are the following expenses and the second parties are the second parties.

In certain cases where we are offering third party hotel development services in exchange for fees, we may elect to provide the hotel owner/developer with a construction completion guaranty on the particular hotel under development. In those cases, if the english owner/developer were in default under the terms and conditions of its senior loans, its senior lenders might seek to compeleus to be used complete the development of the particular hotel with our own funds, which could materially adversely affect our business; financially condition and results of operations.

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### Risks Relating to Our Industry welliamle theory and a finished and addinguisted for eligible search flow of advisors of the control of a finished by the finished and the control of a finished by the finish

#### Our performance and the value of our stock are subject to risks associated with the hotel industry as well as the common set of the common

Our hotels are subject to operating risks of the hotel industry that could reduce our revenue and ability to make distributions to the shareholders. The first of the state of

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- competition) for guests from other hotels; a contract of the contract of the
- faster growth in room supply than in room demand growth in our markets; at the first the first the first than the first than
- increases in operating costs due to inflation and other factors which may not be offset in the future by increased room rates;
- seasonality, with higher hotel revenues occurring in the second and third calendar quarters;
- increases in energy costs, airline fares and other expenses related to travel, which may deter traveling;
- sterrorist incidents, which may also defer traveling; and an idea of the second seco
- adverse effects of general and local economic conditions.

We may incur higher costs as a result of the proximity of our hotels to the coast. If the coast we have the coast we have the coast with the coast.

Several of our hotels are located near the Atlantic Ocean and are exposed to more severe weather than hotels located inland. These hotels are also exposed to salt water and humidity, which can increase or accelerate wear on the hotels weatherproofing and mechanical electrical and other systems. As a result, we may incur additional expenditures for capital improvements.

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All of our hotels are operated pursuant to franchise agreements with nationally-recognized hotel brands. In addition, hotels in which we subsequently invest may be operated pursuant to franchise agreements. A hotel's failure to adhere to the terms and conditions of the franchise agreement could result in the loss or cancellation of its franchise license. The franchise agreements generally contain specific standards for, and restrictions and limitations on, the operation and maintenance of a hotel in order to maintain uniformity within the franchisor's system. These standards are subject to change over time, in some cases at the discretion of the franchisor, and may restrict our ability to make improvements or modifications to a hotel without the consent of the franchisor. In addition, compliance with these standards could require us to incur significant expenses or capital expenditures. Our cash available for distribution could be adversely affected if we or our lessees must incur substantial costs to maintain a franchise license.

gerale de la comita de la comita

In connection with termination of a franchise license or changing the franchise affiliation of a hotel, we may have to incur significant expenses or capital expenditures. Moreover, the loss of a franchise license could have a material adverse effect on the operations or the underlying value of the hotel covered by the franchise because of the loss of association, name recognition, marketing support and centralized reservation system provided by the franchisor. Any of these events could have a negative effect on our distributions to shareholders. The franchise agreements covering the hotels expire or terminate, without special renewal rights, at various times and have different remaining terms.

Operating costs and capital expenditures could adversely affect our cash flow to the transfer of the transfer

Hotels have an ongoing need for renovations and other capital improvements, particularly in older structures, including periodic replacement of furniture, fixtures and equipment. Under the terms of our leases, we are obligated to pay the cost of certain capital expenditures at the hotels and to pay for furniture, fixtures and equipment. Franchisors also may require periodic capital improvements to our hotels as a condition of retaining the franchise licenses. In addition, we intend to invest selectively in hotels that require significant renovation. Renovation of hotels involves certain risks, including:

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- the possibility of environmental problems;

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- construction cost overruns and delays; to sobject to the order of the construction cost overruns and delays; to sobject to the cost of t
- uncertainties as to market demand or deterioration in market demand after commencement of renovation; and
- the emergence of unanticipated competition from other hotels.

If any of these costs exceed our estimates, the additional costs could have an adverse effect on our cash available for distribution.

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#### We must compete with larger entities for acquisition opportunities.

We compete for acquisition opportunities with entities that have substantially greater financial resources than we do. These entities generally may be able to accept more risk than we can prudently manage, including risks with respect to the creditworthiness of a hotel operator or the geographic proximity of its investments. Competition may reduce the number of suitable investment opportunities available to us and increase the bargaining power of sellers. In addition, other potential buyers who do not need to use a lessee or a third party operator to operate the hotel may be able to offer a higher price for a property than we are able to pay

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#### Our performance and value are subject to the condition of the real estate industry. The first of such as conditions of the real estate industry.

We may not be able to sell hotels when appropriate. The latest the boundaries of the property of the following differences of the contract of

Real estate investments generally cannot be sold quickly. We may not be able to vary our portfolio promptly in response to changes in economic and other conditions. Because we are a REIT, federal income tax laws limit our ability to sell properties in some situations when it may be economically advantageous to do so. As a result, returns to our shareholders could be adversely affected. In addition, we cannot assure you that the market value of any of our hotels will not decrease in the future, and therefore we may not be able to sell our hotels on favorable terms.

Liability for environmental matters could adversely affect our financial conditions a matter of the adversary of the adversary of the conditions and the adversary of the advers

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Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of 2 real property may be liable for the costs of investigation and removal or remediation of hazardous or toxic substances on, under, originating at or in the property, including fixtures, structures and other improvements located on the property. These laws often impose liability whether or not the owner or operator knew of (or should have known of), or caused, the presence of contaminants. Clean-up costs and the owner's or operator's liability generally are not limited under these laws and could exceed the value of the property and/or the aggregate assets of the owner or operator. In addition, the presence of, or failure to properly remediate, contaminants may adversely affect the owner's ability to sell or rent the property or borrow using the real property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the clean-up costs of the substances at the disposal or treatment facility, whether or not the facility is or ever was owned or operated by that person.

Environmental; health and safety laws and common law principles also govern the presence, effects, maintenance and removal of the hazardous substances, including asbestos-containing materials, or ACMs. Asbestos has been found in two of our hotels and asbestos or other hazardous substances may be found in other hotels we own or acquire in the future. Many such laws permit third parties, for personal injury or property damage associated with exposure to released hazardous substances, including ACMs. In connection with the ownership of the hotels, we may be considered an owner or operator and therefore may be potentially liable for any such costs, which could have adversely affect our financial condition.

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Liability for uninsured and underinsured losses could adversely affect our financial condition and results of operations again the condition and results again the condition and results again the condition again the condition and results again the condition again the conditi

In the event of a substantial loss, our insurance coverage may not be sufficient to pay the full current market value or current replacement cost of our lost investment. Certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, and other acts of God, may be uninsurable or not economically insurable. In addition, we may not be able to use insurance proceeds to replace a damaged or destroyed property as a result of changes in building codes and ordinances, environmental considerations or other factors. In these circumstances, any insurance proceeds we receive might not be adequate to restore our weekly economic position with respect to the damaged or destroyed property and we would be required to seek separate financing for repairing and replacement costs, which may not be available on acceptable terms or at all, or face a loss on our investment, and all the remarks are appropriately as a second acceptable terms or at all, or face a loss on our investment.

The cost of compliance with the Americans with Disabilities Act and other changes in governmental rules and regulations could adversely affect our cash flow.

Under the Americans with Disabilities Act of 1990, or the ADA, all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. A determination that we are not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. In addition, other governmental rules and regulations or enforcement policies affecting the use and operation of the hotels could change, including changes to building codes and fire and life safety codes. If we are required to spend money to comply with the ADA or other changes in governmental rules and regulations, our ability to make distributions to shareholders could be adversely affected.

Increases in property taxes could adversely affect our cash flow. If when the second second second adversely affect our cash flow.

Real and personal property taxes on our current and future hotel properties may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. An increase in property taxes could have an adverse effect on our ability to make-distributions to shareholders: the filtered in a call of the filter of the containing the term of the containing and the engineer of the

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#### The price of our securities may be affected by changes in market interest rates. The growth of the first of the control of the contr

One of the factors that may influence the price of our common stock or preferred stock in public trading markets is the annual yield from distributions on our common stock or preferred stock as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the market price of our common stock or preferred stock.

Shareholder approval is required to change certain policies, limiting the ability of our board of directors to take certain actions in response to changing conditions. And I street all an one LOD and the about of the analysis of the control of the about of the control of t

We cannot change our policy of limiting consolidated debt to 60% of the cost of our investment in hotel properties without approval of the holders of a majority of our shares of common stock entitled to vote. In addition, the approval of the holders of two-thirds of our shares of common stock entitled to vote is necessary to change our policy of seeking to maintain qualification as a REIT. As a result, our board of directors could not change either of these policies without first receiving shareholder approval at an annual or special meeting, even if the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to the change in policy would be advantageous to us to guestoke to g getterlississus at installer i rechteren ischeren ist eksisere stille issiser gregoris er versiester et er en a

#### The ability of our shareholders to effect a change in control is limited. The property of the second Bur 1994 Filter Bur 1996 of the Control of the Arguinness of the Control of the Control of the Arguin of the Arguinness of the Arguinness

Stock ownership limitations could inhibit changes in control size that you had not be seen to have this exclusive and a submitted of **Linkidi**e maa tekan kin jan angindes din madisin madak sema sinni makingen ad hinigi na suli make sekon ali make

Our articles of incorporation provide that no shareholder may own, directly or indirectly, more than 9.9% of any class of our outstanding stock. This limitation may have the effect of precluding an acquisition of control by a third party without the approval of our board of directors even if a change in control were in your best interest. villatahevaattassaanah eta cabing areta. Setaeberraiah eniat chirebui eteberrasanda majapara etera an ka svidustsa edif

Our ability to issue preferred stock could inhibit changes in control and it was an add at gas assuit a coised has said a resent some of รปายเสายนายเกม เมาะปก การเมาะปก แม้กา มียนมปุตายให้, bould โดยเล่นตามีการโดยใส่ย์แก่ยังได้ที่ ออกเห้าใช้รู้ใหม่ ให้คุณของ เก

Our articles of incorporation authorize the board of directors to issue up to 10,000,000 shares of preferred stock and to establish the preferences and rights of any shares of preferred stock issued. Currently, there are 3,000,000 shares of preferred stock outstanding Issuing additional preferred stock could have the effect of delaying or preventing a change in control even if a change in control were in our shareholders with terest, a will acknow the control of the first of the control of the co

#### Risks Relating to REIT Status udok erā boxie

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## We are subject to tax risks as a result of our REIT status. What is the subject to tax risks as a result of our REIT status.

We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our continuing ability to meet various requirements concerning the ownership of our outstanding stock, the nature of our assets, the sources of our income, and the amount of distributions to our shareholders. In order to qualify as a REIT, we generally are required each year to distribute to our shareholders at least 90% of our taxable income, other than any net capital gain. To the extent that we meet the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be required to pay income tax on our undistributed income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount we pay out to our shareholders in a calendar year is less than a minimum amount specified under the federal tax laws. The requirement to distribute a substantial portion of our net taxable income could cause us to distribute amounts that otherwise would be spent on future acquisitions, unanticipated capital expenditures or repayment of debt, which would require us to borrow funds-or to sell assets to fund the costs of such items. The properties of the costs of such items. The properties of the costs of such items. The properties of the costs of such items.

We have made, and intend to continue to make, distributions to our shareholders to comply with the current 90% distribution requirement and to avoid corporate income tax and the nondeductible excise tax. Our income consists of our share of the income of WINN Limited Partnership, and our cash available for distribution consists of our share of cash distributions from the partnership, less capital expenditures and principal debt payments. Differences in timing between the recognition of taxable income and the receipt of cash available for distribution due to the seasonality of the hotel industry could require us to borrow funds on a short-term basis to meet the current 90% distribution requirement and to avoid the nondeductible excise tax.

If we were to fail to qualify as a REIT for any taxable year, we would not be allowed to deduct our distributions to our shareholders in computing our taxable income. Furthermore, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Unless we are entitled to relief under the federal income tax laws, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification. As a result, our cash available for distribution would be reduced for each of the years involved. Although we currently operate and intend to continue to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors, with the consent of shareholders holding at least two-thirds of the common stock entitled to vote, to revoke the REIT election.

#### യുള്ള പട്ടുകളിലൂട്ട് ഇത് പുകളുള്ള ഉതിരുന്നു. അതുന്ന പുരുത്തിലുള്ള നിരുത്തിലുള്ള വരു വരു വിവരം വിദ്യാവര് വിവരം വ ഇന്റെ രാജ്യ വേണ്ട് അത്തായുള്ള ജോട്ടെയ്യുന്ന് പുരുത്തിലുള്ള ആരുത്തിലുള്ള ഉത്തിരുന്നു. ഇത് വിശ്യാന് വിദ്യാവര് വിദ്യാവര് ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (\$ in thousands) ্তি প্রতিষ্ঠানী চিত্রি এক সম্ভূরী সূত্র

As of December 31, 2001, the Company's exposure to market risk for a change in interest rates related solely to debt outstanding. under the Line. Debt outstanding under the Line totaled \$102,900 at December 31, 2001. The Line, which expires in January 2005, bears interest generally at rates from 30-day LIBOR plus 1.75% to 30-day LIBOR plus 2.50%, based on the Company's consolidated debt leverage ratio. The Company's current interest rate is 30-day LIBOR plus 2.25%. During 1999, the Company entered into any interest rate cap agreement to eliminate the exposure to increases in 30-day LIBOR over 7.50%, and therefore from its exposure to interest rate increases over 8:95% under the Line on a principal balance of \$25,000 for the period of March 23, 1999 through March 25, 2002. In addition, on December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under the Line. The agreement is a contract to exchange floating rate interest payments for fixed interest payments periodically over the life of the agreement without the exchange of the underlying notional amounts. This transaction effectively replaces the Company's variable interest rate based on 30-day LIBOR on \$50,000 of the Line with a fixed interest rate of 5.915% until December 18, 2002. The Line's interest rate spread is currently 2.25%, equating to an effective fixed rate of 8.165% on \$50,000 until December 18, 2002. The differential paid or received on interest rate agreements is recognized as an adjustment to interest expense over the life of the swap. The weighted average interest rate on the Line for 2001 was 6.88%. (See Note 5 to the consolidated financial statements.), At December 31, 2001, the Company had \$52,900 of variable rate debt outstanding under the Line that was exposed to fluctuations in the market rate of interest. To it is the second of the second sec

The strike of race records the firemous includes the factors are acceptable to the original The definitive extent of the Company's interest rate risk under the Line is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. If interest rates increased by 100 basis points, the Company's annual and the compan interest expense would have increased by approximately \$529, based on the amount of variable rate debt outstanding and exposed to fluctuations in the market rate of interest at December 31, 2001. The Company does not enter into derivative or interest rate of the company does not entered into derivative or interest rate of the company does not entered into derivative or interest rate of the company does not entered into derivative or interest rate of the company does not transactions for speculative purposes. Leds 1880/1881 to the control of the state of the speculative purposes. Leds 1880/1881 to the control of the speculative purposes.

The following table presents the aggregate maturities of the Company's GE Capital Corporation fixed rate debt principal and interest rates by maturity dates at December 31, 2001:

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<b>Maturity Date</b>	Fixed 1	Rate Debt	Interest Rate	
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2003		1,376	7.375%	
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#### ITEM 8. C. T. S. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA: Reposition and reposition of the first and the control of the co

The financial statements required by this Item 8 are filed with this report on Form 10, K immediately following the signature page and are listed in Item 14 of this report on Form 10-K.

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Not applicable.

#### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information on the Company's directors is incorporated by reference from pages 4 and 5, "Proposal 1: Election of Directors", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 7, 2002. Information on the Company's executive officers is included under the caption "Executive Officers of the Registrant" on page 9 of this report on Form 10-K.

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#### ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference from pages 7 through 10, "Executive Compensation", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 7, 2002, and a state of the sta

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is incorporated by reference from pages 2 and 3, "Share Ownership of Management and Certain Beneficial Owners", in the Company's Proxy Statement to be filed with respect to the Annual Meeting of Shareholders to be held May 7, 2002.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference from page 13, "Certain Relationships and Related Transactions", in the Company's Proxy. Statement to be filed with respect to the Annual Meeting of Shareholders to be held. May 7, 2002.

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#### **PART IV**

#### EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K **ITEM 14.**

a)	Financial Statements and Schedules	The financial statem	nents and schedules list	ted below are included in this	s report.
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Financial Statements and Schedules Monda and The Ballon and Consultation		
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Winston Hotels, Inc.:		
Report of Independent Accountants	39	
Consolidated Balance Sheets as of December 31, 2001 and 2000	gauseo i seguificos Auraarelio, qabis er elikireti u <b>40.,</b> elrelia auritti -	
Consolidated Statements of Income for the years ended December 31	, 2001, 2000 and 1999 gold. Millson the only the 1.41 such a reference	
Consolidated Statements of Shareholders' Equity for the years ended		
Consolidated Statements of Cash Flows for the years ended December		
Notes to Consolidated Financial Statements	[基本學院][1] [4] [4] [4] [4] [4] [4] [4] [4] [4] [4	
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Notes to Schedule III as a Some attending as Management of the state	น์ อิสติ ปี เมลูมทุ สเทสิ สระจางโดย ที่ โดยสารผู้ 60น. ค. <b>56</b> ได้ตัวปีนี้ ที่ พัก โ	
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CapStar Winston Company, L.L.C.:		
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Balance Sheets as of December 31; 2001 and 2000s equipment self 2 roll	or. It is no ne most see acido qui tageaque au di <b>58</b> kille elle caleiri.	
Statements of Operations for the years ended December 31, 2001, 200	ପ୍ରକ୍ରି <mark>ଗଣ 1999</mark> ହୁଣ ଧର୍ମ୍ୟ ସିଧାନନ୍ତ କରି ଆ ପର୍ବ୍ଦର୍ଶନ୍ତ ମଧ୍ୟ ହ <b>ିତ୍ର</b> । ବୌଟ ନାଜ୍ୟ କାର୍ମ	
Statements of Members' Capital for the years ended December 31, 2001, 2000 and 1999 60		
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Notes to Financial Statements	62	
(b) Reports on Form 8-K. No reports on Form 8-K were filed	during the fourth quarter of 2001.	

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	The exhibits required by Item 601 of Regulation S-K are listed below. Management contracts or compensatory plans s Exhibits 10.10, 10.13, 10.14 and 10.17.
· · ·	Description of the secure of the Common secure of the Common secure of the Common of the State of the Common secure of the Common secur
	Amended and Restated Bylaws  Separation of the S
	Specimen certificate for 9.25% Series A Cumulative Preferred Stock  Proposition with a first control of from the end of the definition of the first control of the end of the en
4.4 (13)	নি লাভাস্থা লাভাস্থা বিশ্ব নালালেল এই বিশ্ব ক্ষিত্ৰ
10.1(3)	Residual Wasser By 1996, 1976 and 1976 a transported for the transport posts of the self-sector of the sector of the se
	Amendment No. 1 dated September 11, 1997 to Second Amended and Restated Agreement of Engine Limited Partnership of WINN Limited Partnership and 4 became the architectural to the Country of the Country
10.3(6)	Amendment No. 2 dated December 31, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.4(12)	Amendment No. 3 dated September 14, 1998 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.5(11)	Amendment No. 4 dated October 1, 1999 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.6	Amendment No. 5 dated as of January 1, 2002 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership
10.7(2)	Form of Percentage Leases  Value 1990 1990 1990 1990 1990 1990 1990 199
10.8(5)	First Amendment to Lease dated November 17, 1997 between WINN Limited Partnership and CapStar Winston Company, L.L.C.
10.9(5)	First Amendment to Lease dated November 24, 1997 between WINN Limited Partnership and 1994 CapStar Winston Company, L.L.C.
odinalga2) col 10.10(1)	dented a grand and university of the section of t
10.11(2)	ாக கி <b>Eimitation of Future Hotel Ownership and Development Agreement</b> (கொண்டை நெக்கை சினி எனிக்கி (சி) க கு கனிக்கிகள்ளது.
10.12(5)	Guaranty dated November 17, 1997 between CapStar Hotel Company, WINN Limited Partnership
10.13(6)	Employment Agreement, dated July 31, 1997, by and between Kenneth R. Crockett and Winston  Hotels, Inc. 1997, and 1997, and 1997, by and between Kenneth R. Crockett and Winston  1998, 1997, and 1998, and 19
10.14(7)	Winston Hotels, Inc. Stock Incentive Plan as amended May 1998
10.15(8)	Loan Agreement by and between Winston SPE LLC and CMF Capital Company LLC dated to the November 3, 1998
10.16(8)	Promissory note dated November 3, 1998 by and between Winston SPE LLC and CMF Capital Company, LLC

10.17(9)	Winston Hotels, Inc. Executive Deferred Compensation Plan	
10.18	Second Amended and Restated Syndicated Credit Agreement, dated as of December 1 among Wachovia Bank, N.A., Branch Banking and Trust Company, SouthTrust Bank, Centura Bank, Winston Hotels, Inc., WINN Limited Partnership and Wachovia Bank, Agent (the "Credit Agreement")	, N.A.,
	39/45/17 19 - 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	1.17%
10.19	Amended and Restated Promissory Note, dated as of December 19, 2001, from Winsto Inc. and WINN Limited Partnership to Wachovia Bank, N.A. for the principal sum of pursuant to the Credit Agreement	
10.20	Amended and Restated Promissory Note, dated as of December 19, 2001, from Winsto Inc. and WINN Limited Partnership to Branch Banking and Trust Company for the proof \$40,000,000 pursuant to the Credit Agreement	
•		1.2
•	Amended and Restated Promissory Note, dated as of December 19, 2001, from Winston and WINN Limited Partnership to SouthTrust Bank, N.A. for the principal sum of \$22,000,000 pursuant to the Credit Agreement	
10.22	Amended and Restated Promissory Note, dated as of December 19, 2001, from Winsto Inc. and WINN Limited Partnership to Centura Bank for the principal sum of \$15,000	on Hotels, ,000
3.	the in pursuant-to the Credit-Agreement in 1914 to the make the specific of the control of the c	200
	Extension Agreement; Second Modification Agreement of Form of Deed of Trust, Assembles, Security Agreement and Financing Statement used to secure certain obligations Credit Agreement (not including certain variations existing in the different states when properties are located)	under the
21.1	Subsidiaries of the Registrant (1986) A section of the first control of the section of the secti	Aleksia.
<b>23.1</b> reduct	Consent of Independent Accountants (Pricewaterhouse Coopers LLP)	
23.2	Accountants' Consent (KPMG LLP)	
24.1	Powers of Attorney	: 1
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- (1) Exhibits to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 33-76602) effective May 25, 1994 and incorporated herein by reference.
- (2) Exhibits to the Company's Registration Statement on Form S-11 as filed with the Securities and Exchange Commission (Registration No. 33-91230) effective May 11, 1995 and incorporated herein by reference.
- (3) Exhibit to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on July 24, 1997 and incorporated herein by reference.
- (4) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on September 15, 1997 and incorporated herein by reference.
- (5) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on December 10, 1997 and incorporated herein by reference.
- (6) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 1998 and as amended by Form 10-K/A filed with the Securities and Exchange Commission on April 1, 1998.
- (7) Exhibit to the Company's Registration Statement on Form S-8 as filed with the Securities and Exchange Commission on July 29, 1998 (Registration No. 333-60079) and incorporated herein by reference.

- (8) Exhibits to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 16, 1998 and as amended on Form 10-Q/A filed with the Securities and Exchange Commission on February 23, 1999 and incorporated herein by reference.
- (9) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 25, 1999 and incorporated herein by reference.
- (10) Exhibit to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on August 4, 1999 and incorporated herein by reference.
- (11) Exhibit to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 13, 1999 and incorporated herein by reference.
- (12) Exhibit to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 17, 2000 and incorporated herein by reference.

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(13) Exhibit to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 19, 2001 and incorporated herein by reference.

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### THE RESERVE OF THE PROPERTY OF

By: /s/ Robert W. Winston, III and the sample proof community for an anomal Robert W. Winston, III and the graph product of a graph of contract bodd in the g Chief Executive Officer

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und der gegen der der er er eine ma**Date: :March 15; 2002** in er high vollen und de eine er her gen Desch an ibdirty is is the

in high fire we remain a biologogogopi bro 400 of Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature		Construction of the form of the base base
* Charles M. Winston		ner (d. 1. gengen Desd) et sidist (4.1). esch <b>March:15;/2002</b> eorodesc bas
/s/ Robert W. Winston, III Robert W. Winston, III	Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2002
/s/ James D. Rosenberg James D. Rosenberg	President, Chief Operating Officer and Secretary	March 15, 2002
/s/ Joseph V. Green Joseph V. Green	Executive Vice President and Chief Financial Officer	March 15, 2002
/s/ Brent V. West Brent V. West	Vice President of Finance and Controller	March 15, 2002
*	Director	March 15, 2002
Edwin B. Borden  * Thomas F. Darden, II	Director	March 15, 2002
*	Director	March 15, 2002
Richard L. Daugherty  * James H. Winston	Director	March 15, 2002
* David C. Sullivan	Director	March 15, 2002

<sup>\*</sup>By /s/ James D. Rosenberg

James D. Rosenberg, Attorney-in-Fact

### Report of Independent Accountants

The Board of Directors and Shareholders Winston Hotels, Inc.

211.13

314, 1E

118-56-66

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Winston Hotels, Inc. at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule of Winston Hotels, Inc. as listed on the index and included in this Form 10-K, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, in 2000 the Company changed its method of accounting for recognizing contingent rental income. As discussed in Note 6 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative instruments and hedging activities.

### /s/ PricewaterhouseCoopers LLP

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PricewaterhouseCoopers LLP Raleigh, North Carolina (106.03)  January 18, 2002 (106.03)	1 67,6 (02,900) 1,236 6,175 4,403 4,403	Long-commodes Dod to bogify Adelect to mostage learn povents Writer and part of the anti-comed expenses Unstructions of paths. Wealthy enterest in Richard of the
1, 10, <b>20</b> 1 2, 10, <b>20</b> 1	39 <u>031</u>	johindet ind P
		entrande និងសេ <b>ង ប្</b> រស់ នគ្គស្នងស្រាស់ ស្វាស់ និងស្វាស់ ស្វាស់ ស្វាស់ ស្វាស់ ស្វាស់ ស្វាស់ ស្វាស់ ស្វាស់ ស្វាស់
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49 (4.1) 2011	できた。 現代により (本)をも (本)である。	Comment stooms \$100 per value and 20.000 stores and pound Countie \$33 and \$6,857,928 in oar onest tore ontoloned as;  (asking out onest in capital  (asking object in capital  (asking object object in capital  (asking object object in capital  (but in our object object in our object of second store)
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### WINSTON HOTELS, INC. CONSOLIDATED BALANCE SHEETS

As of December 31, 2001 and 2000 (\$ in thousands, except per share amounts)

### **ASSETS**

	<u>2001</u>	94 <b>2000</b> N. S. H.
Investment in hotel properties:		and the second
Land	\$ 41,114	\$ 41,948
The Buildings and improvements and improvements are included a fear to the fear to the	359,024	361,768
Furniture and equipment was a second to be a formation of the contract of the	10 State 0 44,376 1 May 20	40,539
The Operating properties so says to the second of the seco	444,514 made	444,255
3. Less accumulated depreciations at the accumulated depreciation at the	96,343	<u> </u>
The Control of the Co	348,171	366,646
Properties under development and the state of the state o	1 <u>200 - 1,916</u>	<u> </u>
with proper Net investment in hotel properties of the grant of the control of the inferior	turni, 1999, <b>350,087</b> 5, 1994,	366,882
Human designacións o Allatinum in caraciónsis deficies mais con denducido esta	ม กระทั <mark>บสารเลย ก็ประเทณ</mark> ์ พ.ศ.	19 m. 1855 O. 6 Julie 11 11
- Corporate FF&E, net also so A inches I less that are also about of transportion	ഗങ്ങളെ എൻ പ <b>1,033</b> - റോക	out the regard $1,\!285$ . Figure $\sim$
Cashres and an article of the control of the cash and the cash and the cash and the cash and the cash are the cash and the cash are the cash and the cash are the		
Lease revenue receivable and the control of the same and same and same gainst	s tember to Hap <mark>4,786</mark> s recogn	(66) * 6 ft of <b>7,127</b> , * 64
Notes receivable read of the proceeds policy in the second policy of about to	ara (1841), a com <mark>3,5,1,6</mark> tona brow	
Investment in joint ventures and a gradual gradual for the confidence of the confide	are a state $st 8,\!173$ , and tag	16 July 19 5 6 <b>8,700</b> market 19
Deferred expenses, net	3,405	3,375
Prepaid expenses and other assets a second of the second o	5.017 de et	<u> </u>
again in gastain a Chour i Phillipe salas, reolabor actor com il establici il nei el como dibbado Sib	kiyan makili wa makili ki	isto o agrifficación balancia graficio
Total assets with a management for	\$ 376,904	\$ 394,310
÷		REPORT OF THE RESERVE OF THE SECOND
LIABILITIES AND SHAREHOLDER	RS' EQUITY	* **
		jordan i geralje i spiloti
Long-term debt	\$ 67,684	\$ 68,872
Due to banks	102,900	103,800
Deferred percentage lease revenue	1,226	499
Accounts payable and accrued expenses	8,175	6,220
Distributions payable	4,468	6,829
Minority interest in Partnership	8,246	9,374
70 - 11' 1'1'-'	102 (00	105 504
Total liabilities	192,699	<u>195,594</u>
	$(x_1, \dots, x_n) \in \mathbb{R}^n \times \mathbb{R}^n$	and the same
Commitments and contingencies	مالين الما	eprophisa is
OL 1.11 1 . 'A.	The state of Delivering	Lorentz Arthur Lorentz (1946)
Shareholders' equity:	$\{ (x, y) : (x, y) \in \mathbb{R}^{n \times n} \}$	and the first state
Preferred stock, \$.01 par value, 10,000,000 shares authorized,		and Araik
3,000,000 shares issued and outstanding (liquidation preference of \$76,734)	20	20
* * * * * * * * * * * * * * * * * * * *	30	30
Common stock, \$.01 par value, 50,000,000 shares authorized, 16,924,533 and 16,897,028 shares issued and outstanding	160	160
	169	169
Additional paid-in capital	230,109	229,796
Unearned compensation Accumulated other comprehensive income (loss)	(542)	(771)
	(1,844)	(20.509)
Distributions in excess of earnings	(43,717)	(30,508)
Total sharshalders' aguity	194 205	100 714
Total shareholders' equity	<u>184,205</u>	<u>198,716</u>
Total liabilities and shareholders' equity	\$ 376,904	\$ 304.210
rotal habilities and shareholders equity	<u>Ψ 370,304</u>	<u>\$ 394,310</u>

The accompanying notes are an integral part of the financial statements.

## WINSTON HOTELS, INC.

### CONSOLIDATED STATEMENTS OF INCOME

### For the years ended December 31, 2001, 2000 and 1999

(in thousands, except per share amounts)

Percentage lease revenue		2001	<u> </u>	2000	1999
Interest, joint venture and other income   2,715   1,289   433   16,2670   1,287   1	Revenue:		-	, Sa	ing.
Expenses:   Real estate taxes and property and casualty insurance   G.682   G.630   G.356     General and administrative   S.419   4.323   4.236     Interest   S.419   4.324     Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle   S.4603   46.469     Income before allocation to minority interest and cumulative effect of change in accounting principle   S.420   S.50   S.39     Income before cumulative effect of change in accounting principle   S.420   S.50   S.400     Income allocation to minority interest   S.22   S.70   S.700     Income before cumulative effect of change in accounting principle   S.757   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750   S.750   S.750   S.750     Income before cumulative effect of change in accounting principle   S.750   S.750   S.750   S.750   S.750   S.750   S.750   S.	Percentage lease revenue	\$ 5	4,755 \$	62,430	\$ 62,237
Expenses:  Real estate taxes and property and casualty insurance General and administrative Jeffect of change in accounting principle allocation to minority interest Income before cumulative effect of change in accounting principle gross Cumulative effect of change in accounting principle allocation to minority interest Income before cumulative effect of change in accounting principle Loss on sale of properties Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle gross Cumulative effect of change in accounting principle allocation to minority interest Income applicable to common shareholders Income applicable to common shareholders Income before cumulative effect of change in accounting principle accounting principle Income applicable to common shareholders Income before cumulative effect of change in accounting principle accounting principle Income before cumulative effect of change in accounting principle accounting principle Income before cumulative effect of change in accounting principle accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle assuming dilution  Net income applicable to common shares  Veighted average numb	Interest, joint venture and other income		2,715		
Real estate taxes and property and casualty insurance G6.682 G6.30 G356 General and administrative General and administrative General and administrative General and administrative General and Earlier General and Earlier General	Total revenue	.5	7,470	63,719	62,670
Real estate taxes and property and casualty insurance G6.682 G6.30 G356 General and administrative General and administrative General and administrative General and administrative General and Earlier General and Earlier General					
General and administrative   5,419   4,323   4,236     Interest   12,170   13,491   12,513     Depreciation   20,792   21,092   20,565     Amortization   968   933   834     Total expenses   46,031   46,469   44,504     Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle   11,439   17,250   18,166     Loss on sale of properties   682   850   239     Income before allocation to minority interest and cumulative effect of change in accounting principle   10,757   16,400   17,927     Income allocation to minority interest   272   677   1,026     Income before cumulative effect of change in accounting principle gross   10,485   15,723   16,901     Cumulative effect of change in accounting principle allocation to minority interest   52	Expenses:		Tab.		의 <b>5</b> 5.
Interest   12,170   13,491   12,513   Depreciation   20,792   21,092   20,565   Amortization   968   933   8.34   Total expenses   46,031   46,469   44,504   Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle   11,439   17,250   18,166   Loss on sale of properties   682   850   239   Income before allocation to minority interest and cumulative effect of change in accounting principle   10,757   16,400   17,927   Income allocation to minority interest and cumulative effect of change in accounting principle   10,485   15,723   16,901   Income before cumulative effect of change in accounting principle   10,485   15,723   16,901   Income allocation to minority interest   272   677   1,026   Income before cumulative effect of change in accounting principle   10,485   15,723   16,901   Income allocation to minority interest   52   5   5   5   5   5   5   5   5	Real estate taxes and property and casualty insurance		6,682		
Depreciation	General and administrative		5,419	4,323	
Amortization 968 933 834 Total expenses 46,031 46,469 44,504 Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle 11,439 17,250 18,166 Loss on sale of properties 682 850 239 Income before allocation to minority interest and cumulative effect of change in accounting principle 10,757 16,400 17,927 Income allocation to minority interest 272 677 1,026 Income before cumulative effect of change in accounting principle 10,485 15,723 16,901 Cumulative effect of change in accounting principle 2 10,485 15,723 16,901 Cumulative effect of change in accounting principle 3 10,485 15,723 16,901 Cumulative effect of change in accounting principle 4 10,485 15,723 16,901 Preferred stock distribution 5 10,485 15,055 16,901 Preferred stock distribution 6 (6,938) (6,938) (6,938) Net income applicable to common shareholders 3 3,547 8,117 9,963  Earnings per common share:  Income before cumulative effect of change in accounting principle 3 0,21 9,052 9,061 Income before cumulative effect of change in accounting principle 3 0,21 9,048 9,061 Net income assuming dilution 9 0,21 9,048 9,061 Net income assuming dilution 9 0,21 9,048 9,061 Weighted average number of common shares Weighted average number of common shares	Interest				
Total expenses   46.031   46.469   44.504     Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle   11,439   17,250   18,166     Loss on sale of properties   682   850   239     Income before allocation to minority interest and cumulative effect of change in accounting principle   10,757   16,400   17,927     Income allocation to minority interest   272   677   1,026     Income before cumulative effect of change in accounting principle   10,485   15,723   16,901     Cumulative effect of change in accounting principle   20,485   20,48   20,61     Income before cumulative effect of change in accounting principle   20,485   20,48   20,61     Income before cumulative effect of change in accounting principle   20,21   20,48   20,61     Net income   20,21   20,52   20,61     Net income assuming dilution   20,21   20,52   20,61     Net income assuming dilution   20,21   20,48	Depreciation	20		21,092	§ 20,565 ·
Income before loss on sale of properties, allocation to minority interest and cumulative effect of change in accounting principle   11,439   17,250   18,166	Amortization				7.7
minority interest and cumulative effect of change in accounting principle         11,439         17,250         18,166           Loss on sale of properties         682         850         239           Income before allocation to minority interest and cumulative effect of change in accounting principle         10,757         16,400         17,927           Income before cumulative effect of change in accounting principle         272         677         1,026           Income before cumulative effect of change in accounting principle - gross          (720)            Cumulative effect of change in accounting principle - gross          (720)            Cumulative effect of change in accounting principle - allocation to minority interest          52            Cumulative effect of change in accounting principle - net          (668)            Net income         10,485         15,055         16,901           Preferred stock distribution         (6,938)         (6,938)         (6,938)           Net income applicable to common share-lolders         \$ 3,547         8,117         9,963           Earnings per common share:         Income before cumulative effect of change in accounting principle         \$ 0,21         0,52         0,61           Income before cumulative effect of change	Total expenses	40	<u>6,031</u>	46,469	44,504
11,439   17,250   18,166				profits State	
Loss on sale of properties   682   850   239		,			The second secon
Income before allocation to minority interest and cumulative effect of change in accounting principle Income allocation to minority interest Income before cumulative effect of change in accounting principle  Cumulative effect of change in accounting principle  Gumulative effect of change in accounting principle  gross  Cumulative effect of change in accounting principle  allocation to minority interest  Cumulative effect of change in accounting principle  allocation to minority interest  Cumulative effect of change in accounting principle - net  Net income  Net income  Net income applicable to common shareholders  Earnings per common share:  Income before cumulative effect of change in accounting principle  accounting principle  Income before cumulative effect of change in accounting principle  Solution		1			18,166
Cumulative effect of change in accounting principle   10,757   16,400   17,927   1,026   1,0		- <u>- 3                                  </u>	682	<u>850</u>	239
Income allocation to minority interest		ু ু	for	a S	
Income before cumulative effect of change in accounting principle  Cumulative effect of change in accounting principle gross  Cumulative effect of change in accounting principle allocation to minority interest  Cumulative effect of change in accounting principle allocation to minority interest  Cumulative effect of change in accounting principle and in accounting principle accounting principle accounting principle  Income before cumulative effect of change in accounting principle assuming dilution  Net income accounting principle assuming dilution  Net income assuming dilution  Superior and the state of the st		-10			
10,485   15,723   16,901			272	677	1,026
Cumulative effect of change in accounting principle - gross (720)   Cumulative effect of change in accounting principle - allocation to minority interest 52  Cumulative effect of change in accounting principle - net Net income 10,485 15,055 16,901  Preferred stock distribution (6,938) (6,938) (6,938)  Net income applicable to common shareholders \$ 3,547 \$ 8,117 \$ 9,963  Earnings per common share:  Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle assuming dilution \$ 0.21 \$ 0.52 \$ 0.61  Net income Net income assuming dilution \$ 0.21 \$ 0.48 \$ 0.61  Net income assuming dilution \$ 0.21 \$ 0.48  Weighted average number of common shares Weighted average number of common shares					
Cumulative effect of change in accounting principle - allocation to minority interest     52     (668)     (6688)     (6688)     (6688)     (6688)     (6688)     (6688)     (6688)   (6.93		10	0,485	<u>15,723</u>	<u>16,901</u>
Cumulative effect of change in accounting principle - allocation to minority interest  Cumulative effect of change in accounting principle - net Net income  Net income  Preferred stock distribution Net income applicable to common shareholders  Earnings per common share:  Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle a	Cumulative effect of change in accounting principle -	1 90			
Allocation to minority interest		ļ.	<del></del>	(720):-1	첫 - 선생 활성
Cumulative effect of change in accounting principle - net         -         (668)         -           Net income         10,485         15,055         16,901           Preferred stock distribution         (6,938)         (6,938)         (6,938)           Net income applicable to common shareholders         \$ 3,547         \$ 8,117         \$ 9,963           Earnings per common share:         Income before cumulative effect of change in accounting principle         \$ 0.21         \$ 0.52         \$ 0.61           Income before cumulative effect of change in accounting principle assuming dilution         \$ 0.21         \$ 0.52         \$ 0.61           Net income         \$ 0.21         \$ 0.48         \$ 0.61           Net income assuming dilution         \$ 0.21         \$ 0.48         \$ 0.61           Weighted average number of common shares         16,926         16,890         16,467           Weighted average number of common shares         16,926         16,890         16,467				72 <u>-</u>	
Net income   10,485   15,055   16,901					
Preferred stock distribution (6,938) (6,938) (6,938)  Net income applicable to common shareholders \$ 3,547 \$ 8,117 \$ 9,963  Earnings per common share:  Income before cumulative effect of change in accounting principle \$ 0.21 \$ 0.52 \$ 0.61  Income before cumulative effect of change in accounting principle assuming dilution \$ 0.21 \$ 0.52 \$ 0.61  Net income assuming dilution \$ 0.21 \$ 0.48 \$ 0.61  Net income assuming dilution \$ 0.21 \$ 0.48  Weighted average number of common shares 16,926 16,890 16,467  Weighted average number of common shares					
Net income applicable to common shareholders  Earnings per common share:  Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle assuming dilution  Net income Net income assuming dilution  Weighted average number of common shares  Weighted average number of common shares  \$ 3,547 \$ 8,117 \$ 9,963  \$ 0.21 \$ 0.52 \$ 0.61  \$ 0.52 \$ 0.61  \$ 0.21 \$ 0.48 \$ 0.61  \$ 0.61  \$ 0.21 \$ 0.48  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61  \$ 0.61		***	0,405		
Earnings per common share:  Income before cumulative effect of change in accounting principle  Income before cumulative effect of change in accounting principle assuming dilution  Net income  Net income assuming dilution  Weighted average number of common shares  Weighted average number of common shares  Weighted average number of common shares					
Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle assuming dilution  Net income  Net income assuming dilution  Weighted average number of common shares  Weighted average number of common shares  Weighted average number of common shares	Net income applicable to common shareholders	<u>\$</u>	3,547 <u>\$</u>	<u>8,117</u>	\$ 9,963
Income before cumulative effect of change in accounting principle Income before cumulative effect of change in accounting principle assuming dilution  Net income  Net income assuming dilution  Weighted average number of common shares  Weighted average number of common shares  Weighted average number of common shares				. 5:00	
Saccounting principle   Saccounting principle   Saccounting principle   Saccounting principle   Saccounting principle   Saccounting principle assuming dilution   Saccounting principle   Saccountin		91		2 4:	
Income before cumulative effect of change in accounting principle assuming dilution  Net income  Net income assuming dilution  Weighted average number of common shares  Weighted average number of common shares  Weighted average number of common shares					
accounting principle assuming dilution $ \begin{array}{ccccccccccccccccccccccccccccccccccc$		\$	0.21 \$	0.52	<u>\$ 0.61</u>
Net income         \$ 0.21         \$ 0.48         \$ 0.61           Net income assuming dilution         \$ 0.21         \$ 0.48         \$ 0.61           Weighted average number of common shares         16,926         16,890         16,467           Weighted average number of common shares         16,926         16,890         16,467		Φ.	0.21	0.70	
Net income assuming dilution \$ 0.21 \$ 0.48 \$ 0.61  Weighted average number of common shares Weighted average number of common shares		\$			
Weighted average number of common shares  16,926  16,890  16,467  Weighted average number of common shares	· · · · · · · · · · · · · · · · · · ·	<u>\$</u>			
Weighted average number of common shares		3			
			6,926	16,890	<u>16,46/</u>
assuming dilution 18,239 18,188 18,108		4.0	0.000	10.100	10 100
	assuming dilution	<u> </u>	<u>8,239</u>	18,188	18,108

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY WINSTON HOTELS, INC.

For the years ended December 31, 2001, 2000 and 1999 (in thousands, except per share amounts)

10/1 10/0 10/0 10/0 50±35

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		Š. J		, except per smu	e amounts)	634 837 6 <u>34</u>	1 2/ve 2	944 250	
	20 - 1200 20 - 120 21 21 21						;	Accumulated	,
	Preferred Stock	d Stock	Соши	Common Stock	Additional Paid-in	Unearned	Distribution in Excess of	Other Comprehensive	Total Sharehold
	Shares	Amount	Shares	Amount	Capital	Compensation		Income (Loss)	Equity
Balances at December 31, 1998	3,000	\$ 30	16,314	\$ 163	\$ 224,757	\$ (310).	\$ (11,215)	-   -   -   -   -   -   -   -   -   -	\$ 213,425
Issuance of shares primarily for redemntion of partnership units	en e e e e e e e e e e e e e e e e e e	e spende		v	7 340	(525)		er e	2 010
Distributions (\$1.12 per common share)		] 3	3	۱ ر	î l	(CCC)	(18,450)	Î	(18,450
Distributions (\$2,31 per preferred share) Unearned compensation amortization		1 1 32-1	1 d	1 - 4,,		321	(6,938)		(6,938
Net income Balances at December 31, 1999	3,000	30	16,814	168	229,106	(524)	16,901 (19,702)		16,901 209,078
Issuance of shares and other	- I	,		•	069		}	.s	(14)
Distributions (\$1.12 per common share)		ł	)I	<u>.</u> 1	2 1		(18,923)	1	(18,923
Distributions (\$2.31 per preferred share)	į	1	:	1	:	:	(6,938)	# 1 # <sub>1.5</sub>	(6,938
Unearned compensation amortization	1	1	1 in	1	<b>!</b>	458	15 055	 	458
Balances at December 31, 2000	3,000	30	768,81		229,796	(177)	(30,508)		198,716
	100		307 <b>(</b>	ering Territ		. 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	v	•	
Distributions (\$0.99 per common share)	retion		<b>%</b> 30	1 1	1 1 1 1 1 1	(198) (198) (198)	(16.756)	1e) ,∤ -∢ - <b>1</b>	511 511 515 515 515
Distributions (\$2.31 per preferred share)	ara Signi Biographi Biographia	, J., J.,	보려 <sup>)</sup> 10. :	1 (A) (A) (A)	l Tyli con	<b>!</b>	(6,938)		(6,938
Unearned compensation amortization	Ept.	<b>.  </b> 	MIT.	ritus Total	l salat tala ta <del>at</del>	427	-1 18	.*	427
Net income	icyte icyte outs eve		00/201 00/100 00/100	លិច ស 	រ សសារ ទូកាល់ សារ៉ាត	l Reserve	10,485	". 1	
Cumulative effect of change in accounting principle	en e	ough Tiblin Tip	ration TRAP Trans		ls 2000, se john e	i de la compania del compania del compania de la compania del compania de la compania de la compania del compania de la compania de la compania de la compania del compania		(245)	
Effective portion of derivative instruments	in is	A vátyl syrej V stárt	Principal Su Su Su Su Su Su Su Su Su Su Su Su Su	ndera in Left <b>i</b> n no e No	Hojiza 1910di 1911a : 1911a : 1911a :	interest of the second	ak j	(1.599)	
Total comprehensive income (loss) Balances at December 31, 2001		30	2003 16925	591	\$ 230,100 \$		£ (43.717)	(1 844)	8,641
हार व तरही	or occupants  it is control  it is control  chighter  chighter	ntoos Stato:	initios Javies Javies				16 D 15 / 16 D 1		
			ving thates are	ondate of the control	of the financial	na de la companio della companio del	भगे अध्यक्ष अध्य	雑など	
	<b></b>	accompany	ying more my	And accompanying figure are arranged part of the implicat statements		statements.	V 114	:	

# WINSTON HOTELS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS For the years ended December 31, 2001, 2000 and 1999

(\$	in	thousands)
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	<u>2001</u>	<u>2000</u>	<u> 1999</u>
Cash flows from operating activities:			<del></del>
Net income And the And April 19 to 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	10,485	15,055 \$	16,901
Adjustments to reconcile net income to net cash provided by		dan ar Îriyê Maş Bîlk Kuranî	TO MARKS
operating activities:			
Minority interest	272	625	1,026
Depreciation	20,792	21,092	20,565
Amortization A solution and the solution of th	968	933	834
Unearned compensation amortization	427	458	321
Loss on sale of properties	682	850	239
Changes in assets and natifices.		and the second	andros (1995). A Michigan Andros (1995). A Michigan
Logo revenue receivable	2,341		42
Prepaid expenses and other assets  Deferred percentage lease revenue	677	(1,137)	(1,497)
Determine Personnings reads 15 center		499	and the stage of t
Accounts payable and accrued expenses	(23)	730	1,521
Net cash provided by operating activities	37,348	<u>39,589</u>	39,952
Cash flows from investing activities: of the support of the suppor			ranyrak almort
Note receivable the laste engine of stated and a last for at the many body, and			erach Éplo <del>it</del> de l
	(502)		(183)
Distributions from joint ventures	1,029	្តាក់សារសាស <del>នៃស</del> ាក្សែន ខេ	. – giblio ( <del>fi</del> aec
Deferred acquisition costs		(240)	(85)
Refund of deferred acquisition costs was a sense of the material and a field			na počekj <del>al</del> y i
Sale of hotel properties and land parcel and the same of the same and the same same and the same same and the same same same same same same same sam			3,789
Proceeds from lawsuit settlement that the late that the law are the settlement that			vodeli en <del>iz</del> tiko
Investment in hotel properties was a second of the second			(16,179)
Cannow Vario Neticash used in investing activities and the period was	<u>41 kg (54967)</u> 1 kg <u>69</u>	(10,231)	(12,658)
Cash flows from financing activities:	el atrollare en Dichille F	A MA. Pilla poletina di	
Payment of distributions to minority interest	(1,454)	(1,454)	(1,947)
Payment of distributions to shareholders	(25,887)	(25,839)	(25,248)
Long term debt payments	(1,188)	(1,103)	(1,025)
Net increase (decrease) in line of credit borrowing	(900)	(700)	2,415
Fees paid in connection with new financing facilities	(1,232)	(91)	(1,388)
Purchase of interest rate cap agreement	en a religiation de la Maria de la Company de Santo. Company	an and an an angle and an	(57)
Fees paid to register additional common shares		(32)	(49)
Net cash used in financing activities  Net cash used in financing activities	(111001)	(29,219)	(27,299)
Vet increase (decrease) in cash of the later set stances, and it is not beautiful.			(5)
Cash at beginning of year in the cash of the results are the cash of the cash			
Cash at end of year	101		
Cash at end of year will act a large from the second secon	9 <u>007</u> Brayaning a 1877	<u>107</u> Bovingson Koha - 20 V	13 (12) 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
Supplemental disclosure: The many for the fact that a figure of the fa	matan, jeur bunu benar	and the engineer leaves	Fill garmagetti
Cash paid for interest	<u> 13,193</u> <u>\$</u>	<u>12,896</u> \$	12,339
Summary of non-cash investing and financing activities:	of the propagation of the	अपूर्वाति स्टमाण भी । इ.इ.वे. वर	ut retus til omså
Distributions declared but not paid  Interest rate swap adjustment to market value Contribution of land parcel to joint venture	4,468 \$	6.828	6,806
Interest rate swap adjustment to market value	1,844	लक्षेत्रकृत्यम् <u>वेत</u> ्रको सा अर्थेन	
Contribution of land parcel to joint venture		1,518	47 - 1,188 - 4 <u>1.1</u> 1
Tanzanda of chance in arrahanta for houte anchin traite	The property of the second of		2 0 6 0
Adjustment to minority interest due to issuance of common stock and		的"原理教育的"的模型。 1995年 1997年	:
conversion of minority interest units to common stock and change			
in other comprehensive income (loss)	115	(19)	
in other comprehensive income (loss)  Deferred equity compensation	198	705 had all	535
	e grande en la	santa de la seria de la compansión de la c La compansión de la compa	7 - 1 1 <u>1</u> 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1

## WINSTON HOTELS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(\$ in thousands, except per share amounts)

### 1. Organization:

Winston Hotels, Inc. ("WHI") operates so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes. During 1994, WHI completed an initial public offering of \$0.01 par value common stock ("Common Stock"), utilizing the majority of the proceeds to acquire one hotel and a general partnership interest (as the sole general partner) in WINN Limited Partnership (the "Partnership"). The Partnership used a substantial portion of the proceeds to acquire an additional nine hotel properties. These 10 hotels were acquired from affiliates of WHI. WHI and the Partnership (collectively the "Company") began operations as a REIT on June 2, 1994. As of December 31, 2001, WHI's ownership in the Partnership was 92.87% (see Note 7).

During 1995 and 1996, WHI completed follow-on Common Stock offerings, as well as a Preferred Stock offering in September 1997, and invested the net proceeds from these offerings in the Partnership. The Partnership utilized the proceeds to acquire 28 additional hotel properties. During 1998, the Company added 13 additional hotels to its portfolio, five of which were internally developed. The Company sold two hotels in 2000 and one hotel in 2001. As of December 31, 2001, the Company wholly owned 48 hotel properties (the "Current Hotels") in 12 states having an aggregate of 6,574 rooms.

The Company also owns a 49% ownership interest in three joint ventures, each of which owns an operating hotel, (collectively the "Joint Venture Hotels"). The Joint Venture Hotels consist of a Hilton Garden Inn located in Windsor, CT, a Hampton Inn located in Ponte Vedra, FL and a Hilton Garden Inn located in Evanston, IL, having a total of 453 rooms. Additionally, the Company has provided mezzanine financing to three unrelated parties, two of which own Hilton Garden Inn hotels having a total of 275 rooms, and one of which owns an independent resort hotel with 679 rooms. The Company has no ownership interest in any property for which it has provided mezzanine financing.

As of December 31, 2001, the Company leased 46 of the 48 Current Hotels to CapStar Winston Company, L.L.C. ("CapStar Winston"), a wholly owned subsidiary of MeriStar Hotels and Resorts, Inc. ("MeriStar"), one of the Current Hotels to Bristol W. Tenant Company, a wholly owned subsidiary of Six Continents Hotels, Inc. ("Six Continents") and one of the Current Hotels to Secaucus Holding Corporation, a wholly owned subsidiary of Prime Hospitality Corp. ("Prime"). CapStar Winston also currently leases two Joint Venture Hotels located in Ponte Vedra, FL and Evanston, IL. Six Continents also currently leases the Joint Venture Hotel located in Windsor, CT. All 48 of the Current Hotels are leased pursuant to separate percentage operating lease agreements that provide for rent payments based, in part, on revenues from the Current Hotels (the "Percentage Leases").

### 2. Summary of Significant Accounting Policies:

Principles of Consolidation. The consolidated financial statements include the accounts of WHI and the Partnership. All significant inter-company balances and transactions have been eliminated.

วิทยาลักษา (พ.ศ. 2006) พ.ศ. (พ.ศ. 1944)

Investment in Hotel Properties. Hotel properties are recorded at cost and are depreciated using the straight-line method over estimated useful lives of the assets of 5 and 30 years for furniture, fixtures and equipment, and buildings and improvements, respectively. Upon disposition, both the assets and accumulated depreciation accounts are relieved and the related gain or loss is credited or charged to the income statement. The lessees pay repairs and maintenance costs of hotel properties.

The Company evaluates long-lived assets for potential impairment by analyzing the operating results, trends and prospects for the Company and considering any other events and circumstances that might indicate potential impairment.

Investment in Joint Venture Properties. Investment in joint venture properties consists of the Company's direct cash or land contributions to the joint ventures as well as capitalized internal costs of services provided by the Company during the development stage. These internal costs are capitalized at 49%, which represents the Company's ownership interest in each joint venture, with the remaining 51% expensed. The Company provides development, purchasing and, upon opening of the hotel, on-going asset management services to the joint ventures. The Company receives fees for these services, 49% of which are recognized as a reduction in the investment in joint venture properties, and 51% of which are recognized as revenue.

Revenue Recognition and Impact of SAB 101. Staff Accounting Bulletin No. 101 ("SAB 101") was issued by the Securities and Exchange Commission in December 1999 and adopted by the Company effective January 1, 2000. SAB 101 requires that a lessor not recognize contingent rental income until the lessee has achieved annual specified hurdles. During 1999 and prior years, consistent with industry practice, the Company recognized contingent rentals throughout the year since it was considered probable that the lessee would exceed the annual specified hurdles. SAB 101 materially impacts the Company's revenue recognition on an interim basis,

effectively deferring the recognition of revenues from its leases from the first and second quarters of the calendar year to the third and fourth quarters. SAB 101 also impacts the Company's revenue recognition on an annual basis, but to a much less degree as seven of the leases of the Company's current 48 hotels have fiscal year ends which differ from the Company's fiscal year end of December 31. The Company accounted for SAB 101 as a change in accounting principle effective January 1, 2000, and recognized the related deferred revenue during 2000. SAB 101 has no impact on the Company's interim or annual cash flow from its third party lessees, and therefore, on its ability to pay dividends. In accordance with the provisions of SAB 101, the Company has not restated the 1999 or prior years' financial statements.

Recently Issued Accounting Standards. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 141, "Business Combinations," ("SFAS No. 141"). SFAS No. 141 supersedes APB Opinion No. 16, "Business Combinations," and FASB Statement No. 38, "Accounting for Pre-acquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires: (1) that all business combinations be accounted for by the purchase method, thereby eliminating the pooling method, (2) that assets (including intangible assets) be recognized and valued apart from goodwill, and (3) that additional disclosures be made regarding business combinations and the resulting allocation of purchase price. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001 and to all purchase method acquisitions dated on or after July 1, 2001. The Company's adoption of SFAS No. 141 did not have a material impact on the Company's financial statements or results of operations.

In June 2001, the FASB issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142"). SFAS No. 142 supersedes APB Opinion No. 17, "Intangible Assets" and primarily addresses accounting for goodwill and other intangible assets subsequent to their acquisition. The major provisions include (1) the ceasing of amortization of goodwill and indefinite lived intangible assets at least annually, and (3) the removal of the restriction that the maximum amortization period of intangible assets with finite lives be limited to 40 years. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001 (with the exception that any goodwill or intangible assets acquired after June 30, 2001 will be subject immediately to the statement's provisions) with application being required at the beginning of an entity's fiscal year. Any impairment losses from the initial application are to be reported as a cumulative effect of a change in accounting principle in accordance with APB 20, "Accounting Changes." The Company's adoption of SFAS No. 142 is not expected to have a material impact on the Company's financial statements or results of operations.

In October 2001, the FASB issued FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). SFAS No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121") and APB 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of Business, and Extraordinary, Unusual and Infrequent Occurring Events and Transactions." In summary, SFAS No. 144 retains the fundamental recognition and measurement provision of SFAS No. 121, however, establishes a "primary-asset" approach to determining the cash flow estimation period for a group of assets and liabilities. SFAS No. 144 retains the basic provisions of APB 30, but broadens the presentation to include a component of an entity. Discontinued operations are no longer measured on a net realizable value basis and future operating losses are no longer recognized before they occur. Rather, they are carried at the lower of its carrying amount or fair value less cost to sell. The provisions of SFAS No. 144 are required to be applied for fiscal years beginning after December 15, 2001. The Company's adoption of SFAS No. 144 is not expected to have a material impact on the Company's financial statements or results of operations.

Derivative Financial Instruments. The Company recognizes all derivative financial instruments as assets and liabilities and measures them at fair value. For derivative financial instruments that are designated and qualify as a cash flow hedge, the effective portions of changes in fair value of the derivative are recorded in accumulated other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized currently in earnings. Changes in the fair value of derivatives that do not qualify for hedge treatment are recognized currently in earnings.

Earning's from Joint Ventures. The Company uses the equity method to recognize its share of net income or loss of the joint ventures it has invested in.

Deferred Expenses. Included in deferred expenses are franchise fees, loan costs and acquisition costs which are recorded at cost. Amortization of franchise fees is computed using the straight-line method over ten years. Amortization of loan costs is computed using the straight-line method over the period of the related debt facility. Acquisition costs are either capitalized to properties when purchased, or expensed.

\*Minority Interest in Partnership. Certain hotel properties have been acquired, in part, by the Partnership, through the issuance of limited partnership units of the Partnership. The equity interest in the Partnership created by these transactions represents the Company's minority interest liability. The Company's minority interest liability is: (i) increased or decreased by its pro-rata share of

the net income or net loss, respectively, of the Partnership; (ii) decreased by distributions; (iii) decreased by redemption of partnership units for WHI's Common Stock; and (iv) adjusted to equal the net equity of the Partnership multiplied by the limited partners' ownership percentage immediately after each issuance of units of the Partnership and/or Common Stock of the Company through an adjustment to additional paid-in capitals of the first term of the control of the

Earnings Per Share. Net income per common share is computed by dividing net income applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Net income per common share assuming dilution is computed by dividing net income applicable to common shareholders plus income allocated to minority interest by the weightedaverage number of common shares assuming dilution during the period. Weighted average number of common shares assuming dilution includes common shares and dilutive common share equivalents, primarily redeemable limited partnership units and stock options; (see Notes 7 and 8). At the control of the

Distributions. WHI's ability to pay regular quarterly distributions is dependent upon receipt of distributions from the Partnership, which in turn is dependent upon the results of operations of the Company's properties. For federal income tax purposes, approximately 39%, 20%, and 10% of the distributions declared on WHI's Common Stock in 2001, 2000, and 1999, respectively, are considered to be return of capitals to program to a manager this action of the latest the control of the contro

Income Taxes. The Company qualifies as a REIT under Sections 856 to 860 of the Internal Revenue Code and therefore no provision for federal income taxes has been reflected in the financial statements.

terminations and all the factors arms of the conservation of the contract of the contract of the contract of the Earnings and profits, which determine the taxability of distributions to shareholders, differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the estimated useful lives used to compute depreciation and the carrying value (basis) of the investment in hotel properties. Additionally, certain costs associated with the Company's equity offerings are treated differently for federal tax purposes than for financial reporting purposes. At December 31, 2001, the net tax basis of the Company's assets and liabilities was approximately \$16,834 more than the amounts reported in the accompanying consolidated financial statements, and the paper of the control of the control

For federal income tax purposes, 2001 distributions amounted to \$0.99 per common share.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, lease revenue receivable and notes receivable. The Company places cash deposits at federally insured depository institutions. At December 31, 2001, bank account balances exceeded federal depository insurance limits by approximately \$1,929. en Carella and Control Control Control Control Care Care Control Control Control Control Care Control Care Control

Estimates. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles. requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet dates and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. along any first on the second and th

In 2001 and 2000, the Company made three mezzanine loans totaling \$3,516 to third party hotel owners. During 2001, the Company provided \$2,186 in mezzanine financing to Noble Investments - Tampa, LLC to develop a Hilton Garden Inn in Tampa, FL (the "Tampa Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 8.44% until the earliest of (a) prepayment of the loan, (b) the initial maturity date of January 1, 2004, or (c) the earlier of (1) 60 days before the maturity date of the borrower's qualified refinancing, or (2) February 1, 2006. During 2000, the Company provided \$1,080 in mezzanine financing to Noble Investments – Sugarloaf, LLC to develop a Hilton Garden Inn in Atlanta (Sugarloaf), GA (the "Sugarloaf Hotel"). The Company receives monthly interest at annual rates based on 30-day LIBOR plus 7.36% until the earlier of (a) prepayment of the loan or (b) June 30, 2005. Both loans are subject to prepayment penalties during the first three years. When each hotel opened, the Company began to earn interest equal to 2% of gross revenues, 25% of which is paid monthly and the remainder is accrued ("Accrued Interest"). On the earlier of prepayment or the maturity date of each loan, the Company will also receive the greater of the Accrued Interest or, with respect to the Tampa Hotel, 20% of the appreciation in value, and with respect to the Sugarloaf Hotel, 15% of the appreciation in value. In addition to earning interest income, the Company also provided development and purchasing services to Noble during each hotel's construction stage for additional fee income. The Company co-developed the Sugarloaf Hotel and developed the Tampa Hotel. During 2001 and 2000, these fees totaled \$645 and \$137, respectively. Both the Tampa Hotel and the Sugarloaf Hotel are owned 100% by unaffiliated single purpose entities (the "Borrowers"). The Company holds collateral equal to 100% of the ownership interest in the Borrowers. The Borrowers made initial equity investments equal to 20% of the total cost of the respective hotel, and there are certain default provisions under which the Company may declare the loan immediately due and payable or may step in and take control of the Borrowers, including for failure to maintain specified debt coverage ratios. Noble Investments LLC and the Noble Company, LLC each unconditionally guaranteed the loan for the benefit of the Company. The Atlanta (Sugarloaf)

project opened during the second quarter of 2001, and the Tampa project opened during the first quarter of 2002. In 2001, the Company also provided mezzanine financing totaling \$250, which represents a participating interest in a \$5,478 mezzanine loan to the owner of a 769-room resort hotel in Orlando, FL. apstractive of the control of the co

At December 31, 2001 and 2000 deferred expenses consisted of:

At December 31, 2001 and 2000 deferred expenses consisted of:	The state of the state of	EN Wall Control	Same Same	etini na krajitani
portension with the transfer of the control of the	$(\mathcal{A}_{\mathcal{A}}, \mathcal{P}_{\mathcal{A}}, \mathcal{P}_{\mathcal{A}}, \mathcal{P}_{\mathcal{A}}, \mathcal{P}_{\mathcal{A}}) = 0$	<u>2001</u>	2000	or Jahr our Edit Man
Franchise fees	\$	1,552	\$ 1,824	
rand the later Debt facility fees to a 120 strains of the leaves of	Committee of the second	3,305	3,604	ight regiseration and 4, 1
and the confinterest rate capability of the flat was a first of the first of the capability of the cap	interpoleration	· 10 · 10 · 10 · 10 · 10 · 10 · 10 · 10	58	in the installable particles
Here the a re-Acquisition costs has been allowed the larger	, November of a section	<u>. 51. – </u> ** 5. **	<u> </u>	Committee to the state of the
a. His to a compact to be a	State of the State of the	4,857	5,502	partition of the first of the contract of the
Less accumulated amortization		1,452	2,127	
Deferred expenses, net the same of the sam			\$ <u>3,375</u>	អ៊ី ក្រុង ស សាសារី
ander, kjølski dørel i karadeji. Oper blakke ste fork	1 1 25 A.	The Court of G	Ff - the feet of	ar en bet bat little

### 5. st.Debt: A st. fig. of the above selection in organism of the street of the street

Brand Commerce

The Company's outstanding debt balance as of December 31, 2001 consisted of amounts due under two debt facilities.

On December 19, 2001, the Company amended and restated its previous \$140,000 line of credit with the same group of banks; led by Wachovia Bank, N.A. The new \$125,000, three-year line of credit (the "Line") bears interest at rates from LIBOR plus 1.75% to at 2.50%, based on the Company's consolidated debt leverage ratio. The Company's current rate is LIBOR plus 2.25%. A commitment fee of 0.05% is also payable quarterly on the unused portion of the Line. The Company used the proceeds from the Line to pay off the outstanding balances under the previous \$140,000 line of credit. The Company has collateralized the Line with 28 of its Current Hotels, with a carrying value of \$200,786 as of December 31, 2001. The Line requires the Company to maintain certain financial ratios including maximum leverage, minimum interest coverage and minimum fixed charge coverage, as well as certain levels of unsecured and secured debt and tangible net worth, all of which the Company was in compliance with as of December 31, 2001.

standing the call of the company content of the content of the content content to the content of the content of

On December 18, 2000, the Company completed an interest rate swap on \$50,000 of its outstanding variable rate debt under the Line. This transaction effectively replaces the Company's variable interest rate based on 30-day EIBOR on \$50,000 of the Line with a fixed interest rate of 5.915% until December 18, 2002. The Line's interest rate spread is currently 2.25%, equating to an effective fixed rate of 8.165% on \$50,000 until December 18, 2002. The market value of the interest rate swap as of December 31, 2001 was . Note that the series of the state of the series of the s (\$1,844).

On November 3, 1998, the Company closed a \$71,000 loan with GE Capital Corporation. The ten-year loan, with a 25-year loan, which amortization period, bears interest at a fixed rate of 7.375%. Fourteen of the Company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's Current Hotels, with a carrying value of the company's current Hotels, which is the company of th \$117,427 as of December 31, 2001, serve as collateral for the loan. The Company used the net proceeds from the loan to pay down the then existing line of credit balance. As of December 31, 2001, \$67,684 was outstanding. All unpaid principal and interest are due on December 1, 2008. The loan agreement with GE Capital Corporation requires monthly principal and interest payments of \$519 and requires the Company to establish escrow reserves for the purposes of debt service, capital improvements and property taxes and insurance. These reserves, which are held by GE Capital Corporation, totaled \$2,413 as of December 31, 2001 and are included in ... prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

As of December 31, 2001 and 2000 the Company's outstanding debt balance under its Line totaled \$102,900 and \$103,800, houses, respectively. From January 1, 2000 through December 18, 2000, interest rates on borrowings were LIBOR plus 1:45%. From the december 18, 2000, interest rates on borrowings were LIBOR plus 1:45%. December 18, 2000 through December 31, 2001, interest rates on \$50,000 of outstanding debt under the Line were at 5.915% plus 1.45%, with the remainder at LIBOR plus 1.45%. Interest costs were payable monthly in arrears. As of December 31, 2001 and 2000 the weighted average interest rates on the outstanding balance under the Line were 6.88% and 7.77%, respectively. During the years ended December 31, 2001, 2000 and 1999, the Company capitalized interest of \$0, \$26 and \$163 respectively, related to hotels under development or major renovation. The data are assumed to the end of the first field of the field าร์สารสุดภาษาที่ อริงาร เพลาะ (และเพลาะ การสุดภาษา 20 แก้ และสิทธิ์สาราชานาร์สาราชานาร์สาราชานาร์สาราชานาร์สาร

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### 6. Derivative Instruments:

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments. Specifically, SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either shareholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives. Derivatives are used primarily to fix the rate on debt based on floating-rate indices and manage the cost of borrowing obligations. The Company does not use derivatives for trading or speculative purposes. Further, the Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. The Company uses a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of derivative instruments. All methods of the conditions and risks existing at each balance sheet date to determine the fair values of derivative instruments. assessing fair value result in a general approximation of value, and such value may never actually be realized.

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As of January 1, 2001, the adoption of the new standard resulted in derivative instruments reported on the Company's Consolidated Balance Sheets of \$1 in assets and \$245 in liabilities; an adjustment of \$(245) to "Accumulated other comprehensive income (loss)," which are gains and losses not affecting retained earnings in the Consolidated Statement of Shareholders' Equity; and an adjustment of \$(17) recorded as a "General and administrative" expense in the Consolidated Statements of Income.

The Company's financing facilities consist of a \$125,000 variable rate line of credit and a \$71,000 fixed rate loan with a ten-year maturity and a twenty-five-year amortization period. To reduce overall interest cost, the Company uses interest rate instruments, currently an interest rate cap agreement and an interest rate swap agreement to convert a portion of its variable-rate debt to fixed-rate debt. Interest rate differentials that arise under these agreements are recognized in interest expense over the life of the contracts. Compared the Ligary sectors and a support of the first of the first of the end of the first of the constant of the first o

The following table summarizes the notional values and fair values of the Company's derivative financial instruments. The notional value at December 31, 2001 provides an indication of the extent of the Company's involvement in these instruments at that time, but does; not represent exposure to credit, interest rate or market risks. The last of the last of the last of the second and the market risks. The last of the last o

on the year of the action with bear on the boar of Notional Significants of the second of the grant of the second
and with the CAt December 31/2001 with Value of the Rate and the Maturity) (4) Fair Value of the boson of the past of the
Calcade Construit All Striver of Experience that any property of Calcifornia and Calcade (Calcade Calcade Calc
and have the Interest/Rate Swap on Jamail \$ 50,000 and 5.915%, placed 12/2002 has \$ and (1,844) in the contract of the contrac
High the second Interest:Rate Cap assert as \$1.25,000 reads 7.500% and 6.3/2002. For the Letter ride to be able to be able to be able to be a few to be

The derivative financial instruments disted in the table above convert variable payments to fixed payments and are, therefore, characterized as cash flow hedges. Cash flow hedges address the risk associated with future cash flows of debt transactions. On December 31, 2001, the derivative instruments were reported at their fair values of \$(1,844) and included in "Accounts payable and accrued expenses" on the Consolidated Balance Sheets. Offsetting adjustments are represented as deferred gains or losses in the consolidated balance Sheets. "Accumulated other comprehensive income (loss)".

Over time, the unrealized gains and losses held in "Accumulated other comprehensive income (loss)" would be reclassified into earnings in the same periods in which the hedged interest payments affect earnings. Within the next twelve months due to the projected differences between the fixed interest rate under the Company's swap agreement and the variable interest rate under the \$125,000 line of credit, the Company estimates that \$1,844 of the current balance held in "Accumulated other comprehensive income" (loss) 2. will be reclassified into earnings around greater or contact. The activities of the first around a last the last the contact of the second and the last the contact of the second and the last the contact of the second around a last the second around a

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### 7. Capital Stock: 19 19-19 Add 1990 ( ) 28 F. A. A. Pritagas and subgraph office of the stock of the matter of the stock o

WHI has issued 3,000,000 shares of 9.25% Series A Cumulative Preferred Stock. Except in the event of certain occurrences, the preferred shares were not redeemable prior to September 28, 2001. Since that date, the preferred shares have been redeemable for cash at the option of the Company, in whole or in part, at a redemption price of \$25 per share, plus unpaid cumulative distributions. ako e meri 1912 kwazari 1925 kwa 2 ilikuwa matawa kati 1925 wa mutu nisiting dala smita da iku we enang 1914 mba

Pursuant to the Partnership Agreement of the Partnership, the holders of limited partnership units have certain redemption rights (the "Redemption Rights"), which enable them to cause the Partnership to redeem their units in the Partnership in exchange for shares of Common Stock on a one-for-one basis or; at the option of the Company, for an equivalent amount of cash. The number of shares issuable upon exercise of the Redemption Rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or the shareholders of WHI. tea a la feat little a la les

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### 8. Earnings Per Share:

The following is a reconciliation of the net income applicable to common shareholders used in the net income per common share calculation to the net income assuming dilution used in the net income per common share—assuming dilution calculation:

			Ye	ar Enc	led December	31,	
Att (AF)	1887 M. 18 Fe		2001		2000		1999
Net income	Supplied to the	\$	10,485	\$	15,055	\$	16,901
Less: preferred shares d	istribution	45 <u>46</u>	6,938	ar e	6,938		6,938
Net income applicable t			3,547		8,117		9,963
Plus: income allocation	to minority interest	1 21/1 m	<u>272</u>		625		1,026
Net income assuming di	lution	\$	3,819	\$	8,742	\$	10,989

The following is a reconciliation of the weighted average shares used in net income per common share to the weighted average shares used in net income per common share – assuming dilution:

	<u> </u>	Year	Ended December	r <b>31,</b>
	70'00 12 <u></u>	2001	2000	<b>1999</b>
Weighted average number of commo	n shares	16,926	16,890	16,467
Weighted average partnership units v	vith			e e e e e e e e e e e e e e e e e e e
redemption rights  Stock options	alsomet I our	1,298	1,298	1,629
		15	- 10 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	12
Weighted average number of commo	n shares		* 7877	t da A
assuming dilution		18,239	18,188	18,108

 $\{q_i\}_{i=1}^n$ 

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 $D_{\mathcal{A}}^{-1} \in \mathbb{R}^{n}_{+}$ As of December 31, 2001, there were 1,055,000 stock options outstanding which were antidilutive (see Note 9). Can s

### 9. Stock Incentive Plan:

HOM NUE During 1998, the Company amended the Winston Hotels, Inc. Stock Incentive Plan (the "Plan"). The amendment increased the number of shares of Common Stock that may be issued under the Plan to 1,600,000 shares plus an annual increase to be added as of January 1 of each year, beginning January 1, 1999, equal to the lesser of (i) 500,000 shares; (ii) 8.5% of any increase in the number of authorized and issued shares (on a fully diluted basis) since the immediately preceding January 1; or (iii) a lesser number determined by the Board of Directors. The Plan permits the grant of incentive or nonqualified stock options, stock appreciation rights, stock are awards and performance shares to participants. Under the Plan, the Compensation Committee of the Company determines the exercise price of an option. In the case of incentive stock options, the exercise price is no less than the market price of the Company's Common Stock on the date of grant and the maximum term of an incentive stock option is ten years. Stock options and stock awards are granted upon approval of the Compensation Committee and generally are subject to vesting over a period of years.

During 2001, 2000 and 1999, the Company granted awards of Common Stock to certain executive officers and Vice Presidents. The total numbers of shares granted were 28,000, 81,000 and 20,000, respectively. These shares vest 20% immediately and 20% on the anniversary date over each of the next four years.

On May 18, 1999, WHI issued 42,000 shares, 7,000 shares each, to six of its Directors. These shares vest 20% immediately and 20% on the anniversary date over each of the next four years. Any unvested shares are subject to forfeiture if the director does not remain a director of WHI. Each director is entitled to vote and receive distributions paid on such shares prior to vesting. On May 18, 1999, WHI also issued options to purchase 2,000 shares of WHI Common Stock to six of its Directors. These options were 100% vested on May 18, 1999.

On January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"). As permitted by SFAS 123, no compensation cost has been recognized for options granted under the Plan. Had the fair value method been used to determine compensation cost, the impact on the Company's 2001, 2000 and 1999 net income would have been a decrease of \$143, \$150, and \$181, respectively, and a corresponding decrease in net income per Common Share of \$0.01, \$0.01 and \$0.01, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2000 and 1999: dividend of \$1.12 and \$1.12; expected volatility of 26.1% and 27.8%; risk-free interest rate of 5.5% and 6.5%, respectively, and an expected life of five years for all options.

The estimated weighted average fair value per share of the options granted in 2000 and 1999 were \$0.24 and \$0.31, respectively. There were no options granted in 2001.

A summary of the status of stock options granted under the Plan as of December 31, 2001, 2000 and 1999, and changes during the The profession of the control of the selection vears ended on those dates, is presented below:

<i>‡</i>	44. 14. 14. 14. 15. 15. 16. 16. 16. 16. 16. 16. 16. 16. 16. 16	2001		2000		1999
		Weighted Average		Weighted Average		Weighted Average
$\mathbb{Q} \mathfrak{S} \times$	<b>Shares</b>	Exercise Price	<u>Shares</u>	Exercise Price	<u>Shares</u>	Exercise Price
Outstanding at beginning			15.	Commence of the Commence	7 % D 409	
of year	1,100,000	\$ 11.13	1,100,000	\$ 11,25	798,000	\$ 12.40
Granted			25,000	8.50	402,000	.ch. 14 13 8 8.77
Exercised		ar na 🚾 . n	154 V 41	·		
Forfeited	(45,000)	11.04	(25,000)	13.88	(100,000)	10.50
Outstanding at end of year	1,055,000	\$ 11.13	1,100,000	\$ 11.13	1,100,000	<u>\$ 11.25</u>
Options exercisable at year-en	d <u>790,750</u>	in the second second	638,500		439,250	

The following table summarizes information about the Plan at December 31, 2001:

Exercise		12.0	Average Remaining
Price Price	<b>Options Outstanding</b>	<b>Options</b> Exercisable	Contractual Life (years)
\$ 8.50	25,000	6,250	8.1
\$ 8.75	370,000	222,000	As in the radius $\frac{3.1}{7.0}$ the sector for admit V
\$ 9.38	12,000	12,000	7.4
\$10.00	28,000	28,000	2.4
\$11.31	50,000 miles to	6 7 6 8 8 <b>50,000</b> 8 6 6 5 5	10.1 specifical 3.80c. and the first of the
\$11.38	90,000	90,000	4.0
\$12.38	50,000	40,000	6.4 Partin Carotter and Flankford
\$13.19	400,000	312,500	6.0
			week was som 5.86% and the parent
			ាស្តី ខេត្ត ស្ថិត្ត សម្រាប់ ប្រធានការប្រជាជា
10. Commitments:	in the property of the second	til makki ak iku esiziliki.	्रिक्ष अर्थ कार्यात हुन्छ। अनु व तक्ष्रीत् है मुक्ताकार ।

[전점: Brooking]

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The Company leases its corporate office under a non-cancelable lease. Under the terms of the lease, the Company makes lease payments through February 2005. Commitments for minimum rental payments are as follows: ู้ กุลเป็นสัติมา ยน้ำแบบ ก็อาสำระ และ ยา หรุกเทษ ทางเ<del>ป็นสัญลาโดย ซายสม</del>บบ สามา และ กลาก เมษฐานเรียก กรุงสมานเ

Year ending December 31: One of all and a series	poses of the common state of the common the contract of the common of the common of the common of the common of
	eras ragilias, las Prancial cable \$150m <del>a las 35</del> 5 cambiga eras contentas se
2003	364
	and of the above a factor $arphi$ , in spinotic of $i$ and the third $i$ to $0$ is given by
, we find an gradient $2005$ by their later with $300$ by $30$	+ CARRED COURS ON CONVISION 63 Note - On William AT
Total	in the constitution of the transfer of the constitution of the con

Rental expense for the years ended December 31, 2001, 2000 and 1999 was \$327, \$193 and \$177 respectively.

The Company has future lease commitments from the lessees under the Percentage Leases through 2013. Minimum future rental payments contractually due to the Company under these non-cancelable operating leases are as follows:

$\mathbf{Y}_{0}$	ear ending December 31:	Amount	
अक्रमाधिक र राज्	2002 - And Andrew H. Bernard Andrew H. Bernard H. Bernard Andrew H. Bernard H	\$ 35.27	
e with a figure to the first	2003 Television in Large should be a first of high strategic and a	35.27	3
	2004	35.27	rg - 1 to the to the same of the
	2005	35.27	3
	2006 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	35.27	
	Thereafter Total		
And the second	Total de la	\$ 377,81	$\overline{0}$

Under the terms of the Percentage Leases, the lessees are obligated to pay the Company the greater of base rents or percentage rents. The Company earned minimum base rents of \$34,872, \$34,405 and \$32,355 for the years ended December 31, 2001, 2000 and 1999, respectively, and percentage rents of \$19,883, \$28,025, and \$29,882 for the years ended December 31, 2001, 2000, and 1999, respectively. The percentage rents are based on percentages of gross room revenue and certain food and beverage revenues of the lessees. MeriStar Hospitality Corporation, an affiliate of CapStar Winston, has guaranteed amounts due and payable to the Company under the 46 properties leased by CapStar Winston up to \$20,000. The lessees operate the hotel properties pursuant to franchise agreements, which require the payment of fees based on a percentage of hotel revenue. The lessees pay these fees.

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Pursuant to the Percentage Leases, the Company is obligated to pay 5% of room revenues (7% of gross room, food and beverage revenues from one of its full-service hotels) to fund periodic improvements to the buildings and grounds, and the periodic replacement and refurbishment of furniture, fixtures and equipment.

tal kirinda kan hili wa**as**asa ya ƙigata

For one of the Current Hotels, the Company leases the land under an operating lease, which expires on December 31, 2062. Expenses incurred in 2001, 2000 and 1999 related to this land lease totaled \$388, \$454 and \$360, respectively. Minimum future rental payments contractually due by the Company under this lease are as follows: 2002 - \$110, 2003 - \$110, 2004 - \$110, 2005 - \$110, 2006 - \$110, 2007 and thereafter -\$6,160.

During 1999, the Company entered into a joint venture agreement with a subsidiary of Regent Partners, Inc. (the "Regent Joint Venture") to jointly develop and own upscale hotel properties. The Regent Joint Venture consists of two separate joint ventures, each of which owns one hotel. The first hotel, a \$16 million full-service 157-room Hilton Garden Inn in Windsor, CT, opened in September 2000 and the second hotel, a \$20 million full-service 178-room Hilton Garden Inn in Evanston, IL, opened in July 2001. The Company provided development and asset purchasing services during the construction of each hotel for fees, and is providing ongoing asset management services to generate additional fee income. Regent currently may offer the Company the right to purchase its interest in either of the Regent Joint Ventures and, if the Company refuses to purchase the interest, Regent may cause the joint venture to sell the hotel owned by the applicable joint venture to a third party. In addition, at the Company's option, it has the right to acquire Regent's interest in either joint venture (1) at any time after 60 months following the date the applicable hotel commenced operations or (2) if Regent fails to sell the applicable hotel following the Company's rejection of an offer by Regent to sell the Company owns 49% of the Regent Joint Venture. The Company owns 49% of the Regent Joint Venture.

During 2000, the Company entered a joint venture agreement with Marsh Landing Investment, LLC ("Marsh") to jointly develop an \$8 million, 118-room Hampton Inn in Ponte Vedra, FL. This hotel opened in December 2000. The Company owns 49% of the joint venture, and Marsh, a company owned by Charles M. Winston and James H. Winston, owns the remaining 51%. Both Charles M. Winston and James H. Winston serve on the Company's Board of Directors. The Company is providing on-going asset management services to the joint venture for additional fee income. Marsh currently may offer the Company the right to purchase Marsh's interest in the joint venture and, if the Company refuses to purchase the interest, Marsh may cause the joint venture to sell the hotel owned by the joint venture to a third party. In addition, at the Company's option, it has the right to acquire Marsh's interest in the joint venture. (1) at any time after December 2005 or (2) if Marsh fails to sell the hotel following the Company's rejection of an offer by Marsh to sell it's interest in the joint venture to the Company.

Under the terms of the operating agreement for each joint venture, the Company must approve all major decisions, including or refinancing or selling the respective hotels, making loans, changes in partners' interests, entering into contracts of \$25,000 or more, and purchasing or acquiring assets.

As of December 31, 2001, the total assets of the three joint ventures were \$44,925, total liabilities were \$27,887, and total equity was \$17,038. For the years ended December 31, 2001 and 2000, the total revenue of the three joint ventures was \$4,394 and \$414, and total expenses were \$3,326 and \$478, resulting in net income(loss) of \$1,068 and \$(64), respectively. During the year ended December 31, 2001, the unaudited financial statements of the joint ventures reflected aggregate cash flow provided by operating activities of \$2,261, cash used in investing activities of \$14,487, principally for hotel additions, and cash provided by financing activities of \$11,448, principally in the form of loan proceeds and capital contributions less distributions to joint venture partners.

### 11. Disclosures about Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value: gar a partie en en en marie en la la comparte de la garraga en la comparte de la comparte de la comparte de la

The property was a second of the

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	The Method was the state of the conditional and the state of the state
,	The substitute of the state of
notes receivable, accounts	article for the action of the contract of the property of the contract of the
payable and accrued expenses:	Carrying amount equals fair value.
Interest rate swap agreement:	Fair value is estimated by obtaining quotes from brokers.
Interest rate cap agreement:	Fair value is estimated by obtaining quotes from brokers.
Long-term debt:	Fair value is estimated based on current rates offered to the Company for debt of the
	same remaining maturities.
and the second second second second second	in a september 1990 and the second of the se

The estimated fair values of the Company's financial instruments are as follows: tan in Nobel Bioten over 1900 to 18 stand to 2000 over his book of ball and the standard of the custom centum o

	2001		2000	er i Kromo Militaria i di kacamatan ka
	Carrying	Fair	Carrying	Fair
题,然后是一个大概,多数 <b>感</b> 不知				
				<u>如果,如果你们</u> 不会是不是
Interest rate cap	more decreased than	The March Mar	And the first of the state of the state of	Toses of what we have the
in a net asset position				
Liabilities: To the first the first of the				
Long-term debt *				
Due to banks	102,900	102,900	103,800	103,800
Interest rate swap				
in a net liability position	1,844	1,844	ing the first of the Control	1 1822 <b>-245</b> 가 보 <sup>3</sup> 전 등다.
and the first of the same	r signariski vi yes	and the party	ta ingeniutalika baha	n ngath i an wi ka

<sup>-</sup> Due to the present state of the economy, interest rates available to lodging REITs are higher than the Company's current rate.

### 12. Quarterly Financial Data (Unaudited): in the company of the constitution where we have a making the constitution of the cons

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Summarized unaudited quarterly results of operations for the years ended December 31, 2001 and 2000 are as follows: de dell'ore colli etcher decembrackets decide becamb i i statistication <mark>acyme</mark>rica designations

	irst S	econd T	hird# 20% if	<b>Fourth</b>
Total revenue And the second of the Market of States	10,154	11,322	15,011 \$	20,983
				11,159
Income (loss) before loss on sale of properties	and the state of t		•	Tre comes with the
and allocation to minority interest	(1,960)	(110)	2,000	9,824
Loss on sale of property		<u>(682)</u> 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	<u> </u>	<u>uthan hour</u> to 194 Box 1
	(1,960)	(792)	3,685	9,824
Income allocation to minority interest	(263)	(180)		<u>576</u>
• •	(1,697)	(612)	3,546	9,248
Preferred share distribution		1,734	1,734	1,736
Net income (loss)applicable to common				
shareholders §	(3,431) \$	<u>(2,346)</u> <u>\$</u>	<u> 1,812</u> \$	<u>7,512</u>
				37 OF 800 180 /
				er ikk laar by Huda Basis.
· · · · · · · · · · · · · · · · · · ·				0:44
Net income (loss) per common share assuming		ાતી પાર્થકો કે જ	termana in anti-fi	- 1.85 型配置 - 1.1 - 1961 - - 2.55 - 3.5
dilution Annual by a strength of the strength	(0.20) \$	(0.14) \$	<u>0.11</u> \$	0.44

<u>2000</u> - 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		First		Second	1	hird	. <b>F</b>	ourth
Total revenue	\$	9,808	\$	10,765	\$	19,213	\$	23,933
Total expenses		11,977		11,820		11,601		11,071
income (loss) before loss on sale of properties,								1
allocation to minority interest and cumulative				13 - A		in the	1 Sec. 1	
effect of change in accounting principle		(2,169)		(1,055)		7,612		12,862
Loss on sale of property		262	-		<del></del>	588	· <u>· · · · · · · · · · · · · · · · · · </u>	<u> </u>
Income (loss) before allocation to minority						1		:
interest and cumulative effect of change in						*****	er er er er er er	
accounting principle		(2,431)		(1,055)		7,024	4 ( )	12,862
ncome (loss) allocation to minority interest		(297)	-	(199)	· ·	379	) <u>- 1                                  </u>	794
income (loss) before cumulative effect of change						14 50	\$ .	· .
in accounting principle		(2,134)		(856)		6,645	· · ·	12,068
Cumulative effect of change in accounting	***							
principle		(668)	5 <u>2</u>					
Net income (loss)	e1,	(2,802)	- 1,	(856)	ž. ž.	6,645		12,068
Preferred share distribution		<u>1,734</u>		1,734		1,734	. <u></u>	1,736
Net income (loss) applicable to common						1 <sub>0</sub>		
shareholders	<u>\$</u>	(4,536)	<u>\$</u>	(2,590)	<u>\$</u>	4,911	<u>\$</u>	10,332
	7.		A					
						le di	B. 14	
Barnings per common share:	_					1		
Net income (loss)	\$	(0.27)	<u>\$</u>	(0.15)	\$	0.29	\$	0.61
Net income (loss) assuming dilution	<u>\$</u>	(0.27)	<u>\$</u>	(0.15)	<u>\$</u>	0.29	\$	0.61

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# 861. 81 WINSTON HOTELS, INC. SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION as of December 31, 2001 (\$ in thousands) 830 : (%) (%) (%) (%) (%)

						(	·		(somesmon m ¢)	(sm)		) [		W.				Life Upon
			Iiil	Initial Cost		Sub Sub Ac	st Capitalized ibsequentio Acquisition			Gross' Amounts Carried " at Close of Period	unts  -  eriod : **		Acci	Accumulated Depreciation	Net Bo Land,	r Net Book Value Land, Buildings		Which Depreciation in Latest Income
Description	Encumbrances	Land	1	Buildings and Improvements	s and ments	Land	TO RECEIVE	es and	Land	Buildings and Improvements	477	Total	Build Impr	Buildings and Improvements	Impro	and v Improvements	Date of Acquisition	Statement is Computed
	*	↔	264	\$	2,750	\$86	↔	726	\$ 350 \$	3,476	. · •	3,826	÷	1,098	<i>•</i>	2,728	6/2/94	30
Hampton Inn Brunswick, GA	*	7]	716	ю	3,887	1		701	716	4,588		5,304		1,308	and the second of	3,996	6/2/94	30
Hampton Inn Cary, NC	*	9	613	4	4,596	1		901	613°°°	5,497	, , , ,	6,110		1,612		4,498	6/2/94	30
Hampton Inn Charlotte, NC	#	<b>∞</b>	833	æ	3,609	34		390	867	3,999	6	4,866	7	1,067		3,799	6/2/94	30
Hampton Inn Chester, VA	*	4	461	7	2,238	;		173		2,411	BCT. Jeza	2,872	385) 1	575		,297	11/29/94	30
Hampton Inn Durham, NC		9	634	4	4,582	12		986	÷ 9 <del>4</del> 6	5,568		6,214		1,608		4,606	6/2/94	30
Hampton Inn & Suites Gwinnett, GA	#	55	557	9	6,959	21		105	578 A	7,064		7,642		1,283		6,359	7/18/96	30
Hampton Inn Hilton Head, SC	*	33	310	3	3,969	1		928	310	4,825		5,135		1,330		3,805	11/29/94	30
Hampton Inn Jacksonville, NC	*	. 4	473	.4	4,140	18		440	491	4,580		.5.071	(+8)	1,335	Ç-y	3,736	6/2/94	30
Hampton Inn Las Vegas, NV	*	38	856	7	7,945	5		152	∯ 961	8,097	· ·	8,958	ş.;	926		7,982	\$/20/98	30
Hampton Inn Perimeter, GA	#	9.	914	9	6,293	3		140	216	6,433		7,350		1,151		6,199	96/61//	30
Hampton Inn Raleigh, NC	#	59	269		5,955	1		1,266	269	7,221	1	7,918	<b>5</b> 1	1,804		6,114	5/18/95	30
Hampton Inn Southern Pines, NC	*	19	614	4	4,280	1		698	614	5,149	6	5,763	្នកស្រ	1,516		4,247	6/2/94	30
Hampton Inn Southlake, GA	*	30	089	4	4,065	15		657	695	4,722	2	5,417	: 1 :	1,394	<b>₹</b> 1046	4,023	6/2/94	30
Hampton Inn W. Springfield, MA	#	91	916	5	5,253	5		617	921	5,870	.u	6,791	A ( ),	920 10 10 10 10 10 10 10 10 10 10 10 10 10 1		5,871	7/14/97	30
White Plains, NY	#	1,382	82	10	10,763	21		382	1,403	11,145	. · · ·	§ 12,548 ∈	3	ें 573 ू	SEC.	10,975	10/29/97	30
Hampton Inn Wilmington, NC	*	4	460	3	3,208	25		601	485	3,809	14.	4,294	ir II. J	1,143	· 1.	3,151	6/2/94	30
Comfort Inn Augusta, GA		4	404	3	3,541	:1		348	40 <del>4</del>	3,889	900 - 2003 6	4,293	iii) ii Ng 4	1,019	internet	3,274	5/18/95	30
Charleston, SC	#	. 438	<u>∞</u>	47	5,853	. =		2,396	449	8,249	a da Bifar 6	869'8	roz ereg L	1,702	trongs Hotel	966'9	5/18/95	30
Chester, VA	*	661	51	9	6,447	5		436	999	6,883		7,549	i de C	£1,731	ti ji iliya Masari		H1/29/94	30
Clearwater, FL	*	5.	532		3,436	30		940	562	4,37		4,938	arini Propi	1,132	21 /C	3,806	5/18/95	30
									© . . 54	or of the second	kani Walik Waza		e en	tus Sus Anda	) 645 1.774			
The state of the s		1 38 A	i		1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1			-						:	į		

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Life Upon Which Depreciation in Latest Income	Statement is Computed	30	30	30	30	30	30	30	30,	30	30	30	30	30	30	- j.p.	30	30	30			30	30.5	30	30 %
	Date of Acquisition	11/29/94	11/29/94	96/9/5	8/16/94	6/2/94	5/1/97	5/22/98	96/6/L	9/13/96	11/14/98	11/4/98	86/1/9	3/9/98	96/1/5	5   5   5   5	26/9/8	96/1/9	5/27/98	701.7588 401.000	4/21/98	2/30/97	7/14/97	12/19/96	10/3/98
Net Book Value Land, Buildings	and Improvements	5,992	7,745	4,718	0	5,314	10,653	6,755	11,438	5,848	7,019	7,283	10,050	10,183	2,702		6,223	14,463	13,008	[0][V]E	0,337	10,109	10,509	5,748	6,102
Accumulated Depreciation	Buildings and Improvements	1,732	2,294	1,165	0	1,963	1,712	996	2,388	1,083	722	873	1,183	्1,329	475	3	1,038	3,334	1,935	ું - -	<b>.</b> (36)	1,664	1,803	266	525
Accu	Build	<b>4</b>	più la	4	0	7	5.		9	_	_	9	3	2			<b>-</b>	7	3	~: C	 <b>x</b> a:	3	2	## T	7
	Total	7,724	10,039	5,883	0	7,277	12,365	7,721	13,826	6,931	7,741	8,156	11,233	(11,512	3,177		7,261	17,797	14,943	200	7,128	11,773	12,312	6,745	6,627
Gross Amounts Carried at Close of Period	Buildings and Improvements	6,740	8,812	4,992		6,718	10,994	902'9	12,792	SE 126,052	6,800	7,275	9,820	10,499	2,740	950 100 100 100 100 100 100 100 100 100 1	6,749	16,711	14,943	** C	5,863	10,860	11,079	**(````````````````	5,708
1	Land	् े 84	1,227	891	.00	559	1,371	1,015	1,034	74 8 3499 35	941	\$001 (% \$1008)	1,413	1,013	437		512	1,086	: 1 ;	C	07,1  }- -	913	1,233	747	916
st Capitalized ubsequent to Acquisition	Buildings and Improvements	532	765	1,441	(4,075)	829	814	85	425 200	74.8	664	(867 - 204 <b>288</b> Denombro 28 800	57		477		895 (1)	3,096	1,244	, d <b>203 .</b>	1,526	1,010	1,925	* 21 to 91	206
Ğost Sül	Land	37	4	20	(459)	27	14	30	24	;	(133)		11	(1.5)	(481)		2	56	·,		4	11	22	520	4
Initial Costs	Buildings and Improvements	6,208	8,047	3,551	4,075	5,889	10,180	6,621	12,367	5,978	6,136	sedi Spids diss. Tugʻilgan CE <b>(188</b> 4)	9,763	10,076	2,263	ا سید اجم اجم اجم اجم	5,854	13,615	13,699	1000	4,337	0,850	9,154	5,907	5,202
T. Committee	Land S	947	1,223	871	459	532	1,357	586	1,010	879	1,074	1.148 a 000.	1,402	1,008	918	5. (	510 ≥10	1,060	; I	(¥ 5	197'1	905	1,211	742	915
	Encumbrances	*	ra (april Albania (b. control	Comot IIII Greenville, SC Contain for the organization of the contained of		Government George States	al temp of #	* 22.75	#	#	*	Homewood Suites  Lake Mary, FL  Lake Mary, FL  Lake Mary, FL  Homewood Suites on on 1901 19, the PACOD B 891 provide CE 6,987 11 c ordinate on the Configuration for the PACOD B 10 provide of the Configuration for the PACOD B 10 provide of the Configuration for the PACOD B 10 provided of the Configuration for the PACOD B 10 provided of the Configuration for the PACOD B 10 provided of the Configuration for the PACOD B 10 provided of the Configuration for the PACOD B 10 provided of the Configuration for	*	*	94 •	de.	*	* 4	* <b>*</b>			#	*	#	*
The Designation of the Control of th	Description	Comfort Inn Durham, NC	Fayetteville, NC	Greenville, SC CHART CONTROL OF C	Raleigh, NC	$\mathbf{z}_{0}$	Orlando, FL Control Co	Alpharetta, GA	Cary, NC	Clear Lake, TX	Homewood Suites Durham, NC	Homewood Suites Lake Mary, FL Homewood Suites	Phoenix, AZ	Homewood Suites Raleigh, NC	Holiday Inn Express Abingdon, VA	Holiday Inn Express	Clearwater, FL Holiday Inn Select	Dallas, TX	Secaucus, NJ	Holiday Inn	Courtyard by Marriott	Ann Arbor, MI	Courtyard by Marriott Houston, TX	Courtyard by Marriott Wilmington, NC	Courtyard by Marriott Winston-Salem, NC

Life Upon Which Which Depreciation in Latest Income Statement is Computed 30 30 30 30 30 30 30 30 30 30 30 30	٠.	•
Date of Acquisition 5/8/98 3/17/98 5/18/95 9/30/97		
Net Book Value Land, Buildings and Improvements 11,040 11,679 10,017 10,041 14,018	# 14.	10 m s
Accumulated Depreciation Buildings and Inprovements 1,375 1,500 1,101 2,994 2,994 2,994 2,994 8,66,642	***	ć.
12,415 13,179 11,118 13,035 13,035 15,790 15,790 15,790 15,790 15,790 15,790 15,790		
Cross Amounts  Carried  at Close of Period  Buildings and  I,168 11,247  1,425 11,754  1,903 9,215  912 12,123  2,112 13,678  568 4,305	A	(see Note 5).
Capitalized equent to guistition Buildings and Informents Informed SS 35 35 367 367 367 367 367 367	\$(462) \$ 29,054	6.1. 6.1. 6.1. 5. 000 line of credit which closed effective December 19, 2001 (see Note 5).
Initial Cost   Fand   Endings and   Ending	\$ 329,970	المحددة aredit which closed e
1,1 1,1 1,5 1,5 1,5 1,5 1,5 1,5 1,5 1,5	\$ 41,576	555   12 <b>5 0</b> 00 line of
Encumbrances * * * * * * * * * * * * * * * * * * *		Description of
Pescription Hilton Garden Inn Hilton Garden Inn Albany, NY Hilton Garden Inn Alpharetta, GA Hilton Garden Inn Ralcigh, NC Quality Suites Charleston, SC Residence Inn Phôenix, AZ Fairfield Inn	Ann Arbor, MI	The supplied

Ž, \*Property serves as collateral for the \$125,000 line of credit which closed effective December 19, if Property serves as collateral for the \$71,000 note through GE Capital Corporation (see Note 5). 8

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S, INC.	2000	403.716 \$ 407,18	<u>.</u>	8		54,236 41,429 13,668 13,834	\$ 66.642 \$ 54.230	
WINSTON HOTELS, INC.	2001	× 2.	- 3	200	ů.			. 000
WINST		3	· V		Teas Tu		r >	
4	72. 42.							1, 19
350	j.fi.	T. Gr		/C ()C ()C ()		Ş.	10	No.
		σ.		125) 25 13	4°	, al.	( ) ) ) ) ) ) ) ) ) ) ) ) ) ) ) ) ) ) )	7
er in the second of the second		The state of the state:	Balance at beginning of period	Acquisitions during period Dispositions during period	Additions during period Balance at end of period	Reconciliation of Accumulated Depreciation:	Depreciation for period	Disposition of the Paragraph of

(a)

**@** 

(c) The aggregate cost of land, buildings and improvements for federal income tax purposes is approximately \$383,890.

## INDEPENDENT AUDITORS? REPORT

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LARGERS OF THAT IS A CONTRACT

he Members apStar Winston Company, L.L.C.:

We have audited the accompanying balance sheets of CapStar Winston Company, L.L.C. (the "Company") as of December 31, 201 and 2000 and the related statements of operations, members' capital, and cash flows for each of the years in the three-year period ided December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to be correspond to the period of the company's management.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those and ards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of aterial misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial atements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as raluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CapStar® 2001 inston Company, L.L.C. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years of the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of the merica.

/s/ KPMG LLP

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'ashington, D.C. bruary 22, 2002

ACLE AT MENDALE HAS TO SELECT

### CAPSTAR WINSTON COMPANY, L.L.C.

### OSES BALANCE SHEETS SERVICE

## As of December 31, 2001 and 2000

(in thousands)

No detection of the coordinate of 19<mark>200</mark>) and the related enteractive is a mean particle of the bas latter of the form of the cause in the transport of the form in the following the foll Current assets: 10.0 (a sense and a second of the control of the c 3. Greek an apienon of these first Pel recent with based on our audies. Cash and cash equivalents Accounts receivable, net of allowance for doubtful accounts of \$69 and \$112 when A December of central and at the groupe vibrate as abrabates and the central actions and the second contract and the contract of the central actions and the central actions are also account to the central actions and the central action and the central actions are also actions and the central action and the central action actions are actions as a central action and the central action actions are actions as a central action aDue from affiliate is to be not be the back to be due on the state of the continue of the continue of the set of the state of the stat decial arisamenta. An andi**98**4 julias <u>eramining an alter besis, evidence saparting the anacents and **essenand other**</u> in Towns in the Total current assets on the contribution and a set of the current assets of the contribution of the discherge assets of the contribution of the current assets of the contribution of the current assets of evaluating the mistriff flags tall practical practication. We bullere that our padits proving a typologic case, for our refers a Furniture, fixtures and equipment, net of accumulated depreciation of 22in ore carefan, ar flancial s21menta ef mod to abov, urcsent febby, to alt material respects, the threucla continu 9092 this 288. Intangible assets, net of accumulated amortization of \$1,045 and \$716 ma. 2005 but 1005 be noting \$522 to as .0.1.1. yearen (Funds) \$85,045 and \$716 ma. Deferred franchise costs, net of accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$213 and \$178 minor in 1002 18 red in 4250 before bolissis accumulated amortization of \$178 minor in 1002 18 red in Restricted cash 37 26,851 LIABILITIES AND MEMBERS' CAPITAL Off conguides? Represent 22 . 2002 Current liabilities: \$ Accounts payable 1,001 1.14 Accrued expenses 5,066 4.14 Percentage lease payable to Winston Hotels, Inc. 4,829 7.12 Advance deposits 248 17 Total current liabilities 11.144 12.600 Commitments Members' capital 15,707 13,18 26,851

See accompanying notes to financial statements.

# CAPSTAR WINSTON COMPANY, L.L.C. STATEMENTS OF OPERATIONS

## Years ended December 31, 2001, 2000 and 1999

್ಯೇ (in thousands)

		2	001		2000	j	1999
tevenue:	sani	11 5 No. 2 8 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	. 4.7.4				
Rooms	basish off	\$ a tharta	√122,487	\$	126,884	\$	127,571
Food and beverage	odjarek <u>a</u>		7,546		8,191		8,015
Telephone and other operating	departments		5,604		6,473		6,129
Total revenue		37.31	135,637		141,548	outrosti panis	141,715
)perating costs and expenses:		X 4				nteunal ta	ye!
Rooms			27,677		29,202		29,037
Food and beverage	I i	1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1	5,581	*	≤ <sup>⊕</sup> 5,877 ·	o a cross II, combi	6,091
Telephone and other operating	departments		3,483		3,768		3,300
Indistributed expenses:	(4 <u>4)</u>	77(4)(2)		**		PR01.33	Zi e
Lease expense			54,290		57,995		58,551
Administrative and general	(A)	nin Tagas	12,559		ୀ3,259	Linto William N.	13,887
Sales and marketing			6,715		6,567		6,450
Franchise fees	N.	10	8,783		9,087	ak <b>10</b> 010 35	9,048
Repairs and maintenance		T term	6,142		6,280		6,433
Energy	100	1	5,998		4005,781	oder orG jereoo	5,686
Other	The state of the state of	and the action of the second	1,433		1,282		1,293
Depreciation and amortization			456		1,047		1,052
Loss on asset impairment					21,658		
Total expenses			133,117		161,803		140,828
et income (loss)		\$	2,520		(20,255)	· <u>\$</u>	887

See accompanying notes to financial statements.

Conservation of galactical and

### CAPSTAR WINSTON COMPANY, L.L.C. STATEMENTS OF MEMBERS' CAPITAL Years ended December 31, 2001, 2000 and 1999 in thousands)

1.4		154					
	\$	14 - 1 <b>51</b> 14 - 1 <b>51</b>	* * * * * * * * * * * * * * * * * * *	MeriSta Opera Compan	iting -	MeriStar Hotels and Resorts, Inc.	деле - <del>"Т</del> отаl» (- <u>1, е</u> . ў)
				<u>. W</u> .>-		ः अवस्य सम्बद्धाः सुन्तः	ima esta vez ambelor carectere e
1371	Balance, Dece	mber 31, 1998		32,	550	5	32,555 T
	Net income				878	9	<u></u>
Telly, Co.		1,51 (1-5)		7767			₩.
1945	Balance, Decer	mber 31; 1999		187 <u>.₹</u> 33,	428	14	33,442
0.500				385.5		rhiozefne tulu i n	ences to the Late Alexandria.
	Net loss			(20,	052)	(203)	(20,255) (1994)
172 5		57.995		(y			Deligner has a
	Balance, Decei	mber 31, 2000	•	-13,	376	(189)	in abanda (a <b>13;187</b> ,5555 100)
1900				17.3			re to tour street reside
1000	Net income	1 10 10		285 B	,495	25	2,520 pastern /
1,144		40		94			50 mm (100 mm)
15, 3	Balance, Dece	mber 31, 2001		24 th 15,	871	(164)	15,707
我们会。		1.2		1 12			

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See accompanying notes to financial statements.

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out of the acceptable action by the defi

### CAPSTAR WINSTON COMPANY, L.L.C. STATEMENTS OF CASH FLOWS

## Years ended December 31, 2001, 2000 and 1999

(\$ in thousands)

and providing the Breefs Communication 2006 and the Artist Co			1999
Cash flows from operating activities:		Mark Land Control	
Net (loss) income and the second of the seco			\$ 887
Adjustments to reconcile net (loss) income to net cash	in the Australia	医阴道性 化二氯甲二甲甲二氯甲二甲甲二甲甲二甲甲二甲甲二甲甲二甲甲二甲甲二甲甲二甲甲二甲甲二	and the second second
provided by (used in) operating activities:			dre e e e e e e e e e e e e e e e e e e
Depreciation and amortization	456 a 456	1,047	1,052
Other	25	11	
Loss on asset impairment			
Change in operating assets and liabilities:		in the state of th	and output (1887)
Accounts receivable, net and and a contract the second	199a (199a)	Maria 498	456
Due from affiliates	(1,831)	(2,338)	(3,275)
Deposits and other assets were the Statement of the experience	272	(659)	(100)
Restricted cash	376 (1986) 1944 (1986)	(23)	166
Accounts payable and accrued expenses			54
Percentage lease payable to Winston Hotels, Inc.	(2,300)	(444)	(28)
Advance deposits	70	27	(32)
Net cash provided by (used in) operating activities	209		(820)
	មាន នៅ នៃកា សង្គ្រាស់ក្រ		The Total Control of the State of the Control
Sash nows from investing activities.		- A March And Winds	
Additions of furniture, fixtures and equipment		(54)	\ <del>-</del> -/
Proceeds from sale of fixed assets	지역 하시다. 기타일 <u>수</u> 다.	gam turn sensî <u>zî</u> stu;	,
Additions to intangible assets		<b></b>	(107)
Additions to deferred franchise costs		ि । बुर्ग्येक्स्यक्रम्यकः । 💵 विक्र	
Net cash used in investing activities		(54)	(204)
the gradient of the discourage of the contract of the second of the second	and the fifther of the con-	n kalan daran da kabupaten da ka	ា នេះ ក្រុមប្រជាជន មិន ប្រធាន សំពី និង ។ ក្រុមប្រជាជន
Net increase (decrease) in cash and cash equivalents	209	(289)	(1,024)
Cash and cash equivalents, beginning of period place transfer for an experimental place of the control of the c	762	1,051 Here 1 1,051	2,075
Cash and cash equivalents, end of period	\$ 971	\$ 762	\$ 1,051
Signal of Gazab Beliated Characters and Society of the Society	partition was still p	ant en	and the second of the second o

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See accompanying notes to financial statements. ten no motor algren de la tende de designe de la completa del completa de la completa de la completa del completa de la completa del la completa del la completa de la completa del la com

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### CAPSTAR WINSTON COMPANY, L.L.C. NOTES TO FINANCIAL STATEMENTS

(\$ in thousands)

### 1. Organization:

CapStar Winston Company, L.L.C. (the "Company") was formed on October 15, 1997, pursuant to a limited liability company agreement ("Agreement"), subject to the Limited Liability Act of the State of Delaware, between CapStar Management Company, L.P. ("CMC") and EquiStar Acquisition Corporation ("EquiStar"), both wholly owned subsidiaries of CapStar Hotel Company ("CapStar"), to lease and operate certain hotels owned by WINN Limited Partnership and Winston Hotels, Inc. (collectively, "Winston"). Generally, members of a limited liability company are not personally responsible for debts, obligations and other liabilities of the company. The Agreement provides for the termination of the Company upon the consent of the members.

In November 1997, CMC purchased substantially all of the assets and assumed certain liabilities of Winston Hospitality, Inc. ("WHI"), including 38 hotel leases, certain operating assets and liabilities, and goodwill and other intangible assets. Concurrent with the purchase, CMC contributed the assets purchased and liabilities assumed in the transaction to the Company.

On August 3, 1998, MeriStar Hotels & Resorts, Inc. ("MeriStar") was spun off from CapStar (the "Spin-Off") to become the lessee, manager and operator of various hotel assets, including those previously owned, leased and managed by CapStar and certain of its affiliates. Pursuant to the Spin-Off, CMC and Equistar transferred their capital and interests in the Company to MeriStar H&R Operating Company, L.P. ("MHOC") and MeriStar, respectively. The transfer was recorded at net book value.

As of December 31, 2001, the Company leased 46 Winston-owned hotels, one hotel owned by Evanston Hotel Associates, LLC ("Evanston"), and one hotel owned by Marsh Landing Hotel Associates LLC ("Marsh Landing"), both of which are limited liability companies of which Winston owns 49%. These hotels included 27 limited-service hotels, 10 extended-stay hotels and 11 full-service hotels. The hotels have 6,581 rooms, are operated under various franchise agreements, and are located in Arizona, Florida, Georgia, Massachusetts, Michigan, North Carolina, New Jersey, New York, South Carolina, Texas and Virginia.

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### **Summary of Significant Accounting Policies:**

122.

31.125 r Cash Equivalents. The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Restricted Cash. Restricted cash represents amounts required to be maintained in escrow to comply with terms of certain state beverage licensing agreements. 

Furniture, Fixtures and Equipment. Furniture, fixtures and equipment are recorded at cost and are depreciated using the straightline method over estimated useful lives ranging from five to seven years.

Intangible Assets. Intangible assets consist of goodwill and hotel lease contracts purchased and beverage licensing costs incurred.

Hotel lease contracts represent the estimated present value of net cash flows expected to be received from the hotel leases originally acquired. Hotel lease contracts are amortized on a straight-line basis over the expected terms of the leases.

Goodwill represents the excess of the cost over the net tangible and identifiable intangible assets originally acquired. Goodwill is amortized on a straight-line basis over 40 years.

Licensing costs represent the cost of beverage licenses mandated by state statutes. Licensing costs are amortized on a straight-line basis over five years.

Impairment of Long-Lived Assets. Whenever events or changes in circumstances indicate that the carrying value of a long-lived asset (including goodwill and other intangible assets) may be impaired, the Company performs an analysis to determine the recoverability of the asset's carrying value. The Company makes estimates of the undiscounted cash flows from the expected future operations of the underlying assets. If the analysis indicates that the carrying value is not recoverable from future cash flows, the asset is written down to its estimated fair value and an impairment loss is recognized. No impairment losses were recorded during 2001 or 1999. During 2000, an impairment loss of \$21,658 was recorded to adjust goodwill created from the acquisition of the leases from WHI in 1997.

TIBET. TI KUTA PATUKAN KANTUKATAN TERMETUAN TILIK KANTUKAN KANTUKAN PATUKAN PATUKAN PATUKAN KANTUKAN KEMBAN KE

Deferred Franchise Costs. Franchise costs are deferred and amortized on a straight-line basis over the terms of the franchise greements, which range from 8 years 9 months to 20 years.

Members' Capital and Allocation of Profits and Losses. Prior to the Spin-Off, CMC had a 99% ownership interest and EquiStar id a 1% ownership interest in the Company. Subsequent to the Spin-Off, MHOC has a 99% ownership interest and MeriStar has a % ownership interest in the Company. In general, the allocation of income and losses and contributions and distributions are made to e members in proportion to their respective ownership interest.

Income Taxes. No provision has been made for income taxes since any such amount is the liability of the individual members.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United ates of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, sclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and penses recognized during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements. In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business ombinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." In August 2001, the FASB issued SFAS No. 144 accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS No. 121. The Company is currently in e process of evaluating the effect these new standards will have on our financial statements.

### **Intangible Assets:**

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Intangible assets consist of the following:

	<u>2001</u>	2000
Hotel lease contracts	\$ 6,576	\$ 6,576
Goodwill:	 3,904	 3,904
Licensing costs	 87	 87
The second second	 10,567	 10,567
Less: accumulated amortization	(1,045)	 (716)
	\$ 9,522	\$ 9,851

During 2000, the Company conducted a review of each hotel's performance and anticipated future performance and our expected ture income from those hotels. This process triggered an impairment review of certain of the Company's long-lived intangible sets. The review included an analysis of the Company's expected future undiscounted cash flows in comparison to the net book lue of the long-lived intangible assets. This review indicated that the long-lived intangible assets were impaired. The Company timated the fair value of the long-lived intangible assets using the discounted expected future cash flows generated by the underlying sets. Accordingly, the Company recorded an impairment loss of \$21,658 to adjust goodwill created from the acquisition of the asset from WHI in 1997.

### **Management Agreements:**

The Company manages 40 of the 48 hotels leased from Winston, Evanston and Marsh Landing and has separate management reements with third parties to manage the remaining eight hotels. The terms of these third-party management agreements provide r management fees to be paid on a monthly basis based on budgeted gross operating profit, as defined in the agreements, with year-d adjustments for actual operating results. The terms of the eight management agreements extend to 2012. The agreements are ncelable before expiration under certain circumstances. Management fees incurred during 2001, 2000 and 1999 were \$582, \$745 d \$886, respectively, and are included in other expenses.

### **Transactions with Related Parties:**

The Company and MHOC advance amounts to each other in the normal course of business. These advances are non-interest aring. At December 31, 2001 and 2000, MHOC owed the Company \$12,836 and \$11,005, respectively.

Each of the Company's hotels is leased under a separate participating lease agreement. The leases expire on various dates ranging from December 2010 to December 2013 with extension options available to the Company. The leases require monthly minimum base rental payments to Winston, Evanston and Marsh Landing and additional monthly or quarterly payments of percentage rent, based on revenues generated by the hotels in excess of specified amounts. The leases are non-cancelable except upon sale of a hotel. Winston, Evanston, or Marsh Landing is required to make a termination payment to the Company, as defined in the lease agreements, upon cancellation of a lease. MeriStar Hospitality Corporation has guaranteed amounts due and payable by the Company under the leases up to \$20.million. shi that the process with a more and a contract as seen the second mental and defending mental and

likuwasa Bebraiku 1991 kemberukan laan mathafakasa bakhagaraka kembatran di sifulkas agaajiyo jera agamba waga biliyo bay wa

Future minimum base rental payments under these non-cancelable operating leases as of December 31, 2001 are as follows:

fwin slaam siekelingson <b>2001</b> as in self in sla	Controlled Influence \$ 10.34,352h   Problem Glides I Course Color of the Land Residence Color of the
<b>2002</b> at the Auditor	างหลายให้เป็นประชายาณี <b>234,352</b> ค. ประชาชาฐานกระดู รายเปลู่เป็น และ ประชาชาว และพ. ประ
2003	34,352
ing reactors of the land in the control of the cont	production of the prof <b>34,352</b> 068, much life the experience with program highly and
40 for the control of	filo <mark>rse i sategostali <b>34,352</b> in elet</mark> e dili 2011 de cultatibe, filoria e electivo
on ythe care a very medical Thereafter by antom	una lesta d'Ass <u>illà <b>206,433</b> tal</u> lestanogi <b>s</b> Ceranològica di Lina explue in lestafia

\$ 378,193

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The Company incurred minimum base rents of \$33,290, \$31,329 and \$30,676, and additional percentage rents of \$21,000, \$26,666 and \$27,875 during 2001, 2000 and 1999, respectively.

### 7. Business Concentration:

Winston owns 100% of 46 of the Company's leased hotels and 49% of two of the Company's leased hotels. Therefore, the Company's financial position and results of operations would be adversely and materially impacted if Winston sells the hotels and terminates the leases. Management believes that Winston has no intention of selling hotels which would, individually or in the aggregate, have a material impact on the operations of the Company. CHORD CONTRACTOR AND ADMINISTRATION OF THE SELECT 8 2.822 8

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### NDEX TO EXHIBITS

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*	174 Phys. 19	Country of the control of the contro	· •
	3.1(10)	Restated Articles of Incorporation (100 kg, 21 kg/s) and the love of the first sector	
. •	3.2 (13)	Amended and Restated Bylaws	4
	<b>4.1(1)</b> (2) (2) (2) (3)	Specimen certificate for Common Stock; \$0.01 par value per share 49 000 par, or specimen certificate for Common Stock; \$0.01 par value per share 49 000 par, or specimen certificate for Common Stock; \$0.01 par value per share 49 000 par, or specimen certificate for Common Stock; \$0.01 par value per share 49 000 par value per share 40 000 par va	
	4.2(4)	Specimen certificate for 9.25% Series A Cumulative Preferred Stock	
		Restated Articles of Incorporation (1911) to the private of the beautiful of the first of the control of the first of the	.(1)
	4.4 (13)	Amended and Restated Bylaws  We are \$1. As \$2.5 as seement the outbroad are no most increased breakens. The area is \$2.5 as \$2.5 are not because the contract of the contract	
		Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership	$\mathcal{X}^{(1)}$
	10.2(4)	Amendment No. 1 dated September 11, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Limited Partnership along the Balance of Second Amended and Restated Agreement of Second Amended and Restated Agreement of Second Amended Agree	104
, * * *.	(16 mg) = 1)	Amendment No. 2 dated December 31, 1997 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership	
	10.4(12)	Amendment No. 3-dated September 14, 1998 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership at the Company of the C	
	10.5(11)	Amendment No. 4 dated October 1, 1999 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership	<b>d</b>
	10.6	Amendment No. 5 dated as of January 1, 2002 to Second Amended and Restated Agreement of Limited Partnership of WINN Limited Partnership	
	10.7(2)	Form of Percentage Leases	.22 .10
	10.8(5)	First Amendment to Lease dated November 17, 1997 between WINN Limited Partnership a CapStar Winston Company, L.L.C.	
	10.9(5)	First Amendment to Lease dated November 24, 1997 between WINN Limited Partnership a CapStar Winston Company, L.L.C.	and od
a punta	10.10(1)	The state of the state of the set of the set of the set of the state of the set of the s	
	10,11(2)	BLimitation of Future; Hotel Ownership, and Development Agreement ( மார் மார் சி முக்குறை மேற்ற ச	
277.24 €	10.12(5)	Guaranty dated November 17, 1997 between CapStar Hotel Company, WINN Limited Partnersh and Winston-Hotels, Inc. There will have a drive between New residence in the company of the compan	hip ndms: (4
1 p.:	10.13(6)	Employment Agreement, dated July 31, 1997, by and between Kenneth R. Crockett and Winston Hotels, Inc. A separative for a live and the first between the first and the condition of the condition	n Hiddaysi (4)
	10.14(7)	Winston Hotels, Inc. Stock Incentive Plan as amended May 1998	
i sakaya a	10.15(8)	Loan Agreement by and between Winston SPE LLC and CMF Capital Company LLC dated. A. November 3, 1998	
	10.16(8)	Promissory note dated November 3, 1998 by and between Winston SPE LLC and CMF Capit Company, LLC	्रिक्स त ital

10.17(9)	Winston Hotels, Inc. Executive Deferred Compensation Plan	er <b>u</b> ntakuna	. () . [ <b>&gt;</b> . 6
10.18	Second Amended and Restated Syndicated Credit Agreement, dated as of December among Wachovia Bank, N.A., Branch Banking and Trust Company, SouthTrust Bank Centura Bank, Winston Hotels, Inc., WINN Limited Partnership and Wachovia Bank Agent (the "Credit Agreement")	nk, N.A., nk, N.A. as	
	Amerikas Describit and Eylews	Ans.	
10.19	Amended and Restated Promissory Note, dated as of December 19, 2001, from Win Inc. and WINN Limited Partnership to Wachovia Bank, N.A. for the principal sum pursuant to the Credit Agreement	of \$48,000,000	
	i de character continue de 1350 de continue de la continue de continue de continue de continue de continue de	\$ 1.7 to 1.1	
10.20	Amended and Restated Promissory Note, dated as of December 19, 2001, from Win Inc. and WINN Limited Partnership to Branch Banking and Trust Company for the of \$40,000,000 pursuant to the Credit Agreement		
	Amended and Nessalad Bytaws	10000	
10.21	Amended and Restated Promissory Note, dated as of December 19, 2001, from Win	aston Hotels,	
ម្មើសិក្សាបាន	Fine, and WINN Limited Partnership to SouthTrust Bank; N.A. for the principal sum \$22,000,000 pursuant to the Credit Agreement		•
10 1376	<ul> <li>Aute of the White Hand September 15, 1997 to Second Appendence of Reserval Agents</li> </ul>	(6% 01	
10.22	Amended and Restated Promissory Note, dated as of December 19, 2001, from Win	nston Hotels,	
	Inc. and WINN Limited Partnership to Centura Bank for the principal sum of \$15,0	00,000	
K List	The antiquest No. 2 dated December 19 1 is framework distributions of the property of the prop	(0.3(6)	
	Liouwe Frince bip of WINN Lineal Furnership		
	Extension Agreement; Second Modification Agreement of Form of Deed of Trust, 2000 Rents; Security Agreement and Financing Statement used to secure certain obligation Credit Agreement (not including certain variations existing in the different states we properties are located)  Advantage Advantag	ons under the	
		4 1 2 Mar 11	
21.1	Subsidiaries of the Registrant quantum Pasimila MMIV to gift a most		
<b>23.1</b> To Min. 3	Some Consent of Independent Accountants (Pricewaterhouse Coopers LLP) in an unbroants.	3.67	
23.2	Accountants' Consent (KPMG LLP)		
	i ana of Percentago Leaves	1277.0°	
24.1	Powers of Attorney		
	<ul> <li>First Amondanza, to Louse dated November 17, 1997 between VIPLY Harvis Polyagua Norscon Compuny LL 3.</li> </ul>	(2:30)	
Exhibits to the Cor	mpany's Registration Statement on Form S-11 as filed with the Securities and Exchange C	ommission (Regis	tration
No. 33-76602) effe	EPEN Americana de Lease de Preference, esta de l'appare Mineral de l'éctive May 25, 1994 and vincorporate d'herein by réference, et la Compray, et l'acceptant de l'apparence de l'apparence de la compray, et l'acceptant de la compray et la compray et l'acceptant de la compray e	(6)9.01	
	mpany's Registration Statement on Form S-11 as filed with the Securities and Exchange C	ommission (Regis	tration
	ective May 11, 1995 and incorporated herein by reference not asked and adolescent asked	(1)0144	
Exhibit to the Conincorporated herein	npany's report on Form 8-K as filed with the Securities and Exchange Commission on July	y 24, 1997 and	
d Parthership	stimilifill (Vir. 2) you got 0.2 to be to depth to the condition of Text (Cl. 19ding self bands your or it)  mpany's report on Form 8-K as filed with the Securities and Exchange Commission on Se	(2)01.01 Intember 15, 1997	and

- (1) E N
- (2) E N
- (3) Ex in
- (4) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on September 15, 1997 and incorporated herein by reference. Angloyment in sections, dated flaty Co. 1990, by the server in North Rel Conducts and Williams
- (5) Exhibits to the Company's report on Form 8-K as filed with the Securities and Exchange Commission on December 10, 1997 and incorporated herein by reference. His interference of the Society of the state of the contract of the state of the st (C) [4] (C)
- (6) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 27, 1998 and as amended by Form 10-K/A filed with the Securities and Exchange Commission on April 1, 1998.

部件1.1 相对对对线

Company, LaC

(7) Exhibit to the Company's Registration Statement on Form S-8 as filed with the Securities and Exchange Commission on July 29, 1998. (Registration No. 333-60079) and incorporated herein by reference and the hord of the second o

- (8) Exhibits to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 16, 1998 and as amended on Form 10-Q/A filed with the Securities and Exchange Commission on February 23, 1999 and incorporated herein by reference.
- (9) Exhibits to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 25, 1999 and incorporated herein by reference.
- 0) Exhibit to the Company's Quarterly Report on Form 10-Q or filed with the Securities and Exchange Commission on August 4, 1999 and incorporated herein by reference.
- 1) Exhibit to the Company's Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission on November 12, 1999 and incorporated herein by reference.
- 2) Exhibit to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 17, 2000 and incorporated herein by reference.
- 3) Exhibit to the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 19, 2001 and incorporated herein by reference.